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**THE HONORABLE GORDON R. ENGLAND**  
SECRETARY OF THE NAVY



**THE SECRETARY OF THE NAVY**  
WASHINGTON DC 20350 - 1000



November 2005

During Fiscal Year 2005, the Department of the Navy has remained actively engaged in Iraqi Freedom, Enduring Freedom and elsewhere in the Global War on Terror. In addition, natural disasters, like the devastating tsunami in South East Asia, the earthquake in Pakistan and India and the powerful hurricanes at home, especially Katrina, required a rapid and robust response from our forces.

In combat and in performing humanitarian acts of compassion, the men and women of the United States Navy and Marine Corps, in conjunction with their sister services, have performed magnificently. The tenacity, flexibility, agility and adaptability of Naval Forces have again demonstrated their unique capability to perform effectively a wide spectrum of missions from the sea and with speed and staying power. Whether Navy or Marine, active or reserve, the men and women of the Sea Services have performed with professionalism and pride. The civilian members of the Naval team and all the Navy families are active partners in achieving mission accomplishment in this critical time in our Nation's history.

This Department of the Navy's Fiscal Year 2005 Annual Financial Report provides performance results that enable Congress, the President and taxpayers to assess the performance of the Department in achieving its mission and the stewardship of resources. The Navy is working to meet a primary objective – spending the taxpayers' money wisely and providing value for our citizens and for our Nation. The Department of the Navy continues to emphasize tooth-to-tail efficiencies in support to the warfighter.

A handwritten signature in black ink, reading "Robert F. England". The signature is written in a cursive style with a long, sweeping underline.



**THE HONORABLE RICHARD GRECO, JR.**  
THE ASSISTANT SECRETARY OF THE NAVY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)





THE ASSISTANT SECRETARY OF THE NAVY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
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WASHINGTON, DC 20350-1000

November 2005

The Department of the Navy made significant advances in financial management and reporting during Fiscal Year 2005, incorporating best practices in corporate governance and linking together financial, business, and information systems. We presented to Congress and inaugurated a long-term Financial Improvement Program, supporting the development of business processes that are well-documented; they are also controlled in a way that when implemented throughout the Department will ultimately support a favorable audit opinion on the totality of our financial statements. The program implements internal controls similar to those prescribed by the Sarbanes-Oxley Act for private sector corporations.

During Fiscal Year 2005 we established the first-ever Audit Committee for the Department. Membership includes Secretariat leadership, the Department's Auditor General, and outside observers such as the Department of Defense Inspector General. We are moving away from a date-driven clean audit effort to a strategy that focuses on achieving audit of realistically manageable portions of our financial statements. The Committee is implementing a work plan that will result in a near-term favorable audit of the Marine Corps and several majority asset and liability lines such as Military Equipment, Real Property, and Environmental Liabilities.

In Fiscal Year 2005 our financial management team made other meaningful advancements in the areas of human capital, business practices, and customer communications. We have sought to move beyond our traditional technical roles of finance officers, comptrollers, budgeters, and analysts to be independent and objective business partners within the Department, providing added-value in strategy, operations, and performance. We developed a financial efficiency index, FEI, a comprehensive measure of how well the Department is executing the budget. This is the first genuine attempt to integrate an *ex-post* performance measure and *ex-ante* operational decision making. We also began to implement a detailed plan to achieve "just-in-time" cash management in the Navy Working Capital Fund. And we are developing a portfolio analysis capability, based on emerging private sector analytical techniques, which will allow us to evaluate simultaneously a complex menu of program investment options, optimizing the efficiency of our financial resources. In order to maintain our well-qualified financial management workforce, we enhanced our recruiting and retention programs, expanding, in particular, the financial management trainee program. All these initiatives, and more, are described on our new financial management website, [www.finance.hq.navy.mil](http://www.finance.hq.navy.mil).

The Department of the Navy's Fiscal Year 2005 Annual Report, *Combat and Compassion*, reflects the progress we have made in financial management and reporting, and our commitment to the efficient and effective stewardship of resources entrusted to us by the American public. We are committed to being agents of transformation, adopting proven best practices, and leveraging lessons learned today so that we can help our Navy and Marine Corps leaders win tomorrow.

The Department of the Navy financial management team confidently embraces the challenges that lie ahead, desiring to enhance our position as a world-class organization, shaping a culture of excellence and achieving continuous improvement in transparency and accountability to the American taxpayer.

*Richard G. G. Jr.*



## MANAGEMENT'S DISCUSSION AND ANALYSIS

2005





*“The challenge for the future is ensuring we are maintaining the proper investment balance between the needs of today and the requirements of tomorrow.”*

-- The Honorable Gordon R. England, Secretary of the Navy, February 2005



## INTRODUCTION

The Department of the Navy continues to invest in its transformation efforts while responding to a full spectrum of military operations. The Department has used financial resources appropriated by Congress to significantly increase its operational readiness, to finance new research and development, to begin the procurement of new classes of ships and aircraft, and to advance its Human Capital Strategy goals. Additionally, the Department's joint war-fighting team, the U.S. Navy and U.S. Marine Corps, has continued to answer the nation's call in the Global War on Terror and to perform essential global stability and security operations.

The costs of new weapon systems, operations and maintenance, and personnel are rising, however, and the Department must find the proper investment balance to serve both its immediate needs and the requirements of tomorrow. Our challenge today is to achieve the appropriate readiness posture at the right cost to win the Global War on Terror, to support the military's needs, and to continue the naval transformation that will enable the Navy-Marine Corps team to fight and win tomorrow's battles.

## ORGANIZATION AND MISSION

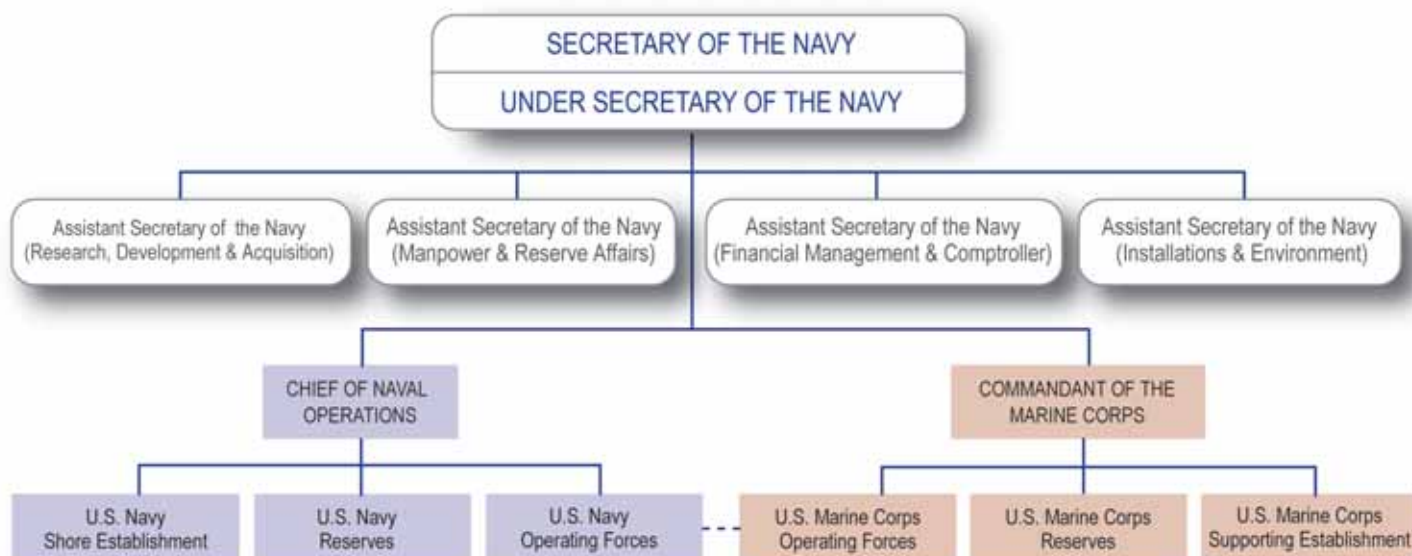
The Department of the Navy (DON) is organized under the Secretary of the Navy. It operates under the authority, direction, and control of the Secretary of Defense (Section 5011, Title 10 U.S. Code). The chart below provides a simplified illustration of the DON organizational structure. The full structure is shown online at <http://www.navy.mil/palib/organization/org-top.html>.

### THE DEPARTMENT OF THE NAVY

*Founded 30 April 1798*

#### Our Mission:

- Control and maintain freedom of the seas
- Project power beyond the sea
- Influence events and advance U.S. interests across the full spectrum of military operations



\* Dashed line signifies collaboration of the U.S. Navy and the U.S. Marine Corps operating forces.

## NAVAL LEADERSHIP

Three key leaders within the Department of the Navy are the Secretary of the Navy, the Chief of Naval Operations, and the Commandant of the Marine Corps. Below is a brief description of their leadership roles.

Secretary of the Navy. The Secretary of the Navy is mandated under Title 10 of the U.S. Code to conduct all of the affairs of the Department of the Navy, consistent with the national security policies and objectives established by the President and the Secretary of Defense.

Chief of Naval Operations. The Chief of Naval Operations is responsible to the Secretary of the Navy for the command of the Navy shore establishment and operating forces. He is responsible also for the operating efficiency of those forces and for their utilization of resources.

Commandant of the Marine Corps. The Commandant of the Marine Corps is responsible to the Secretary of the Navy for the performance of the Marine Corps, including the administration, discipline, internal organization, training, efficiency, and readiness of the service and for meeting all of its resource requirements.

## NAVAL OPERATING FORCES: PART OF THE TOTAL JOINT FORCE

The Department of the Navy provides naval forces, including fleet and Marine Corps forces, to the five Geographic and four Functional Commands - the Unified Commands.

The map on the right shows the areas of responsibility of the five Unified Commands that are defined by geographic region and the naval forces that support them.

UNITED STATES NAVY	UNITED STATES MARINE CORPS
<p><b>THE NAVY SHALL BE ORGANIZED, TRAINED, AND EQUIPPED PRIMARILY FOR PROMPT AND SUSTAINED COMBAT INCIDENT TO OPERATIONS AT SEA. IT IS RESPONSIBLE FOR THE PREPARATION OF NAVAL FORCES NECESSARY FOR THE EFFECTIVE PROSECUTION OF WAR EXCEPT AS OTHERWISE ASSIGNED AND, IN ACCORDANCE WITH INTEGRATED JOINT MOBILIZATION PLANS, FOR THE PEACETIME COMPONENTS OF THE NAVY TO MEET THE NEEDS OF WAR. (SECTION 5062, TITLE 10 U.S. CODE)</b></p> <p><b>FOUNDED 13 OCTOBER 1775</b>  <a href="http://www.navy.mil">http://www.navy.mil</a></p>	<p><b>THE MARINE CORPS SHALL BE ORGANIZED, TRAINED, AND EQUIPPED TO PROVIDE FLEET MARINE FORCES OF COMBINED ARMS, TOGETHER WITH SUPPORTING AIR COMPONENTS, FOR SERVICE WITH THE FLEET IN THE SEIZURE OR DEFENSE OF ADVANCED NAVAL BASES AND FOR THE CONDUCT OF SUCH LAND OPERATIONS AS MAY BE ESSENTIAL TO THE PROSECUTION OF A NAVAL CAMPAIGN. (SECTION 5063, TITLE 10 U.S. CODE)</b></p> <p><b>FOUNDED 10 NOVEMBER 1775</b>  <a href="http://www.usmc.mil">http://www.usmc.mil</a></p>



1. **U.S. Northern Command (USNORTHCOM):** USNORTHCOM has few permanently assigned forces. However, naval personnel (civilians and uniformed services) are among the civil service employees and uniformed service members at USNORTHCOM headquarters (Peterson Air Force Base, Colorado).  
[www.northcom.mil](http://www.northcom.mil)
2. **U.S. European Command (USEUCOM):** U.S. Naval Forces Europe and 6th Fleet ([www.naveur.navy.mil](http://www.naveur.navy.mil)); U.S. Marine Corps Forces, Europe ([www.mfe.usmc.mil](http://www.mfe.usmc.mil))
3. **U.S. Pacific Command (USPACOM):** U.S. Pacific Fleet, 3rd and 7th Fleets ([www.cpf.navy.mil](http://www.cpf.navy.mil)); U.S. Marine Corps Forces, Pacific and Fleet Marine Force, Pacific ([www.mfp.usmc.mil](http://www.mfp.usmc.mil))
4. **U.S. Central Command (USCENTCOM):** U.S. Naval Forces Central Command and 5th Fleet ([www.cusnc.navy.mil](http://www.cusnc.navy.mil)); U.S. Marine Corps Forces Central Command ([www.marcent.usmc.mil](http://www.marcent.usmc.mil))
5. **U.S. Southern Command (USSOUTHCOM):** U.S. Naval Forces Southern Command ([www.cusns.navy.mil](http://www.cusns.navy.mil)); U.S. Marine Corps Forces, South ([www.mfs.usmc.mil](http://www.mfs.usmc.mil))

Additionally, the Department of the Navy provides naval forces to support the missions of the four Functional Commands, as illustrated below.

U.S. JOINT FORCES COMMAND	U.S. STRATEGIC COMMAND
U.S. Fleet Forces Command and 2nd Fleet ( <a href="http://www.cffc.navy.mil">www.cffc.navy.mil</a> )	Ballistic Missile Submarines ( <a href="http://www.chinfo.navy.mil">www.chinfo.navy.mil</a> )
U.S. Marine Corps Forces, Atlantic ( <a href="http://www.marforlant.usmc.mil">www.marforlant.usmc.mil</a> )	U.S. Marine Corps Forces, Strategic Command ( <a href="http://www.marforlant.usmc.mil">www.marforlant.usmc.mil</a> )
U.S. SPECIAL OPERATIONS COMMAND	U.S. TRANSPORTATION COMMAND
U.S. Naval Special Warfare Command ( <a href="http://www.navsoc.navy.mil">www.navsoc.navy.mil</a> )	Military Sealift Command ( <a href="http://www.msc.navy.mil">www.msc.navy.mil</a> )



*The guided missile destroyers USS Fitzgerald (DDG 62) (in foreground) and USS John Paul Jones (DDG 53) underway in the Coral Sea in support of Exercise Talisman Sabre 2005. Talisman Sabre is an exercise jointly sponsored by the U.S. Pacific Command and Australian Defence Force Joint Operations Command. The exercise focuses on crisis action planning and execution of contingency response operations.*



# REPORTING ENTITIES

For financial reporting purposes, the Department of the Navy is organized into two reporting entities: the Department of the Navy General Fund and Navy Working Capital Fund. The General Fund is the larger of the two reporting entities, accounting for 94 percent of total Department of the Navy assets in fiscal year (FY) 2005. (See "Financial Reporting Results" for a discussion of the FY2005 financial performance of the Department of the Navy General Fund and the Navy Working Capital Fund.) The next two sections provide more information on these reporting entities.

## DON GENERAL FUND

The DON General Fund supports overall Department operations, including the operations of the major commands. Direct appropriations from Congress comprise the DON General Fund account structure. Examples of DON General Fund appropriations include military personnel; operation and maintenance; and procurement. (For a complete list of DON General Fund appropriations, see "General Fund Other Accompanying Information.")

### MAJOR COMMANDS

The U.S. Navy and U.S. Marine Corps together comprise DON's joint war-fighting team. Both services have numerous major commands that operate under the authority and responsibility of a commander or other designated official and that typically support a network of subordinate commands. Each major command has a clearly defined mission that supports the overall Department mission.

There are four groupings of major commands within the General Fund: the Secretariat, Navy Operating Forces, Navy Shore Establishment, and the Marine Corps Organization. The following section provides a brief outline of the mission, organization, and recent major initiatives or accomplishments of representative commands within each grouping. The breadth and depth of the DON organization precludes discussion here of every command. Full details of all commands are available online at <http://www.navy.mil>.

## SECRETARIAT

### ORGANIZATION AND MISSION

The Secretariat is comprised of the offices of the four Assistant Secretaries of the Navy (see below) and includes the Assistant for Administration to the Under Secretary of the Navy, which performs administrative functions for the Secretary of the Navy, the Under Secretary of the Navy, the Assistant Secretaries of the Navy, and the General Counsel.

- Office of the Assistant Secretary of the Navy (Research, Development and Acquisition) (ASN(RD&A)). The Office of the ASN(RD&A) is responsible for the development and acquisition of Navy and Marine Corps platforms and weapon systems. <http://www.hq.navy.mil/rda/>
- Office of the Assistant Secretary of the Navy (Manpower and Reserve Affairs) (ASN(M&RA)). The Office of the ASN(M&RA) provides leadership to the DON in recruiting, developing, and retaining individuals for military and civilian service. <http://www.hq.navy.mil/mra/>

- Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN(FM&C)). The Office of the ASN(FM&C) directs and manages the financial activities of the DON by overseeing the management of the annual budget and supporting processes, and providing informed recommendations to DON senior leadership regarding the efficient and effective allocation of assets, consistent with the national security priorities of the President and the Secretary of Defense. <http://www.finance.hq.navy.mil/fmc/>
- Office of the Assistant Secretary of the Navy (Installations and Environment) (ASN(I&E)). The Office of the ASN(I&E) is responsible for the formulation of DON-wide policies and procedures and for overseeing all DON functions and programs relating to the environment ashore and afloat, real property, housing, and other facilities. <http://www.hq.navy.mil/ie/main.html>

Unique to the Secretariat is the Office of Naval Research (ONR). The ONR reports to the Chief of Naval Research, who operates under the authority, direction, and control of the Assistant Secretary of the Navy (Research, Development, and Acquisition). The mission of the ONR is to coordinate, execute, and promote science and technology programs of the U.S. Navy and the U.S. Marine Corps through schools, universities, government laboratories, and nonprofit and for-profit organizations; to provide technical advice to the Chief of Naval Operations and the Secretary of the Navy; and to work with industry to improve technology manufacturing processes.

## ORGANIZATIONAL CHANGES

The Office of General Counsel realigned its personnel to establish the Navy Litigation Office. This new office consists of high-level attorneys and support staff who handle major DON litigation in the principal areas of contracts, environmental and civilian personnel law, including bankruptcy and fraud cases.

Additionally, the DON established the Naval Acquisition Integrity Office to bolster efforts in deterring, detecting, and monitoring procurement fraud. The responsibilities of this new office include coordination of the naval procurement fraud program, delivery of procurement fraud training, dissemination of procurement fraud guidance, and collaboration with other Department of Defense entities that have established similar fraud programs.



*The Office of Naval Research vessel YP-679, Afloat Lab, prepares to dock at the South Street Seaport in preparation for New York City's 18th annual Fleet Week.*

### WORKFORCE TRENDS

The Naval Criminal Investigative Service has seen an increase in personnel as a result of the Global War on Terror. In FY2005, the Naval Criminal Investigative Service gained 140 personnel and anticipates an additional 190 personnel in FY2006. These increases support requirements such as deployable/protective operations, technical surveillance countermeasures, and force protection for DON port visits.

In contrast, the Office of Naval Research faces workforce attrition in the next five years, with 46 percent of its civilian workforce eligible for retirement. The average age of the command's civilian workforce is 50 years; only three percent of its civilian workforce is under the age of 30.

### MAJOR INITIATIVES AND ACCOMPLISHMENTS

The Marine Corps, in collaboration with the Office of Naval Research, has sponsored research in next-generation protective coatings for Marine Corps equipment, weapons, and vehicles. These new coatings will provide better camouflage and protection from chemical warfare agents and will be easier to apply than previous coatings. They also will contain none of the volatile organic chemicals that have in the past been linked to respiratory disorders, such as asthma.

Additionally, the Office of Naval Research has funded research to counter the phenomenon of increasing bacterial resistance to antibiotics. Several types of bacteria, such as those that cause tuberculosis, typhoid fever, and pneumonia, have evolved to resist conventional treatment, a fact that represents one of the major threats to health in the United States. The research indicates that interfering with certain of the proteins present in the bacteria may prevent their further evolution; work is underway to develop new antibiotics that can act against these bacterial proteins.

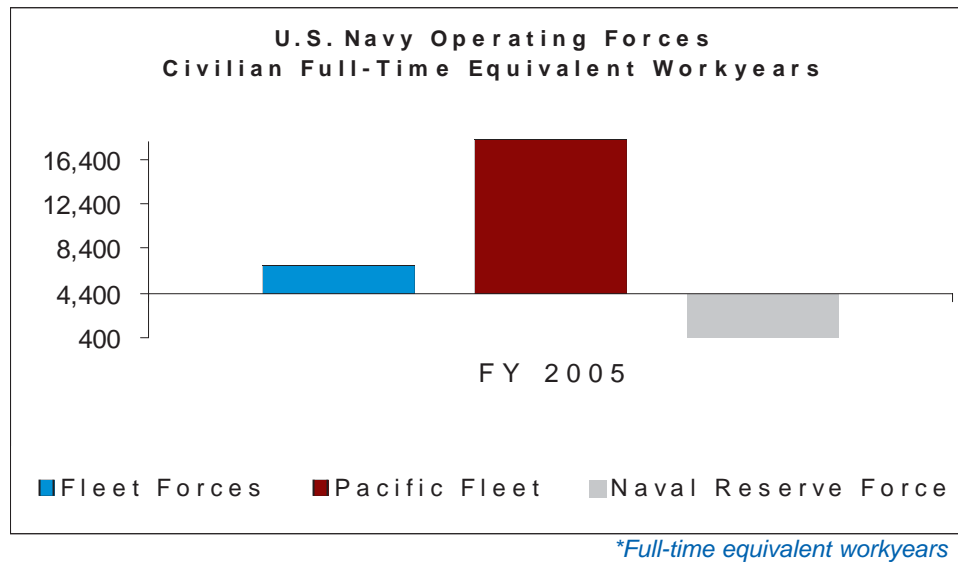


*The hospital ship USNS Comfort (T-AH 20) moored pier side in New Orleans on September 28, 2005 to assist in the Hurricane Katrina relief efforts. Comfort's medical staff worked alongside local civilian physicians to treat over 1,800 patients.*

## NAVY OPERATING FORCES

### ORGANIZATION AND MISSION

The Navy Operating Forces ("the Fleet") embody forward presence, crisis-response, and fighting power in support of the Unified Combatant Commanders. Representative examples include the Fleet Forces Command, Pacific Fleet Command, and Naval Reserve Force Command. (NOTE: The Commander, Fleet Forces has dual responsibility as Commander, Atlantic Fleet.)



#### FLEET FORCES COMMAND

**Mission:** To organize, man, train, and equip Navy forces and provide planning support to the Combatant Commanders; to deter, detect, and defend against homeland maritime threats; and to articulate Fleet war-fighting and readiness capabilities to the Chief of Naval Operations.

<http://www.cffc.navy.mil/>

#### PACIFIC FLEET COMMAND

**Mission:** To support the U.S. Pacific Command's theater strategy, and to provide interoperable, trained, and combat-ready naval forces to the Fleet and other U.S. Unified Commanders.

<http://www.cpf.navy.mil/>

#### NAVAL RESERVE FORCE COMMAND

**Mission:** To provide mission-capable units and individuals to the Navy-Marine Corps Team throughout the full range of operations from peace to war.

<http://navyreserve.navy.mil/>





*A pilot assigned to the "Gladiators" of Strike Fighter Squadron One Zero Six (VFA-106) smiles as he watches squadron personnel perform pre-flight checks on his F/A-18F Super Hornet on the flight deck aboard USS Harry S. Truman (CVN 75).*

## ORGANIZATIONAL CHANGES

The Fleet continued to improve organizational alignment in FY2005. Some examples of organizational changes appear below.

Fleet Forces Command. The Fleet Forces Command restructured its organization to achieve effectiveness and efficiency in naval capabilities. Some of these changes included establishment of regional maintenance centers and the disestablishment of field activities and detachments. The Fleet Forces Command is planning similar changes in FY2006.

Pacific Fleet Command. The Pacific Fleet Command restructured its organization to respond to the increased importance of the Pacific Rim to world economics and domestic security. During FY2005, the command considered several different staffing models to organize a staff structure that could effectively command the Fleet over more than 100 million square miles. With the new staff organization in place, current operations and training are now under one director to ensure tactical and real-time lessons learned can be quickly incorporated into daily Fleet operations.

## WORKFORCE TRENDS

The Fleet Forces Command continued its military-to-civilian conversions in FY2005 in support of Department-wide efforts to reduce military end strength. Military-to-civilian conversions involve the transfer of civilian-related duties performed by military personnel to the civilian workforce. This conversion allows military personnel to return to more traditional war fighting roles. The command plans to continue military-to-civilian conversions through FY2008.

## MAJOR INITIATIVES AND ACCOMPLISHMENTS

The Fleet implemented a broad range of initiatives in FY2005 to increase naval capabilities. Some examples of initiatives and accomplishments appear below.

Fleet Forces Command. The Fleet Forces Command reviewed the maintenance and training schedules of non-deployed naval forces to determine whether higher levels of training and material readiness could be sustained. This review reflects a refinement of the Fleet Response Plan (see "Strategic Management, Combat Capability" for more information on the Fleet Response Plan).

Pacific Fleet Command. The Pacific Fleet Command provided an immediate response to the December 26, 2004 earthquake and tsunami that struck Southeast Asia. Within hours, the command had ordered naval forces to move toward the affected areas, with the USS Abraham Lincoln (CVN 72) Carrier Strike Group arriving on the scene less than one week after the incident.

The USS Bohomme Richard (LHD 6) and USS Essex (LHD 2) Expeditionary Strike Groups joined the effort shortly thereafter. None of the groups had humanitarian assistance and disaster relief as their primary mission areas, yet they were able to bring relief and aid to hundreds of thousands of people across the region.

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Naval Reserve Force Command. The Naval Reserve Force Command, in collaboration with the Fleet Forces Command, continued efforts toward Active Reserve Integration (ARI). ARI is an initiative directed by the Chief of Naval Operations that will fully integrate the Naval Reserve Force with the active force to create a more cohesive, surgeable, ready force. The Fleet Forces Command and Naval Reserve Force Command have been engaged in a comprehensive zero-based review of naval reserve capabilities. As more progress is made toward ARI, the need for a large reserve infrastructure will decrease, as manpower functions shift to the Navy Personnel Command and training and readiness requirements shift to active commands.



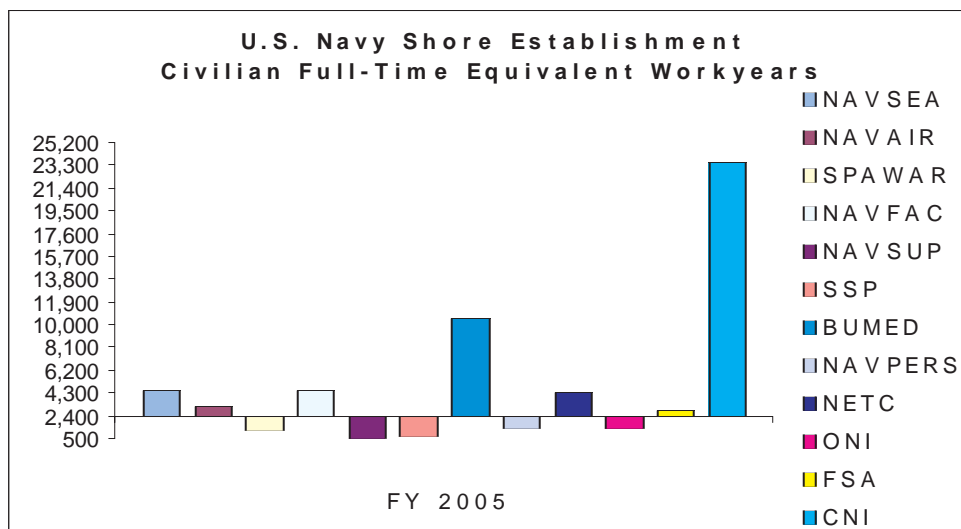
*Members of Explosive Ordnance Disposal Mobile Unit 11 Detachment Nine participate in a fast rope exercise from an HH-60H Seahawk helicopter aboard the USS Carl Vinson (CVN 70). The Carl Vinson Carrier Strike Group is deployed to the 6th Fleet area of operations.*

# NAVY SHORE ESTABLISHMENT

## ORGANIZATION AND MISSION

The Navy Shore Establishment provides support to the Navy operating forces in the form of personnel, bases, activities, equipment, and facilities. Examples of major commands within the shore establishment include:

- Naval Sea Systems Command (NAVSEA),
- Naval Air Systems Command (NAVAIR),
- Space and Naval Warfare Systems Command (SPAWAR),
- Naval Facilities Engineering Command (NAVFAC),
- Naval Supply Systems Command (NAVSUP),
- Strategic Systems Programs (SSP),
- Bureau of Medicine and Surgery (BUMED),
- Navy Personnel Command (NAVPERS),
- Naval Education and Training Command (NETC),
- Office of Naval Intelligence (ONI),
- Field Support Activity (FSA), and
- Navy Installations Command (CNI).





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### NAVAL SEA SYSTEMS COMMAND

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**Mission:** To keep America's Navy #1 in the world by providing the Navy operationally superior and affordable ships, systems, and ordnance throughout their lifecycle...for today, tomorrow, and the Navy after next.

<http://www.navsea.navy.mil>

### NAVAL AIR SYSTEMS COMMAND

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**Mission:** To provide sustainment (current readiness), systems acquisition (future readiness), decision support; and to make the Navy more capable, ready, and affordable in a joint environment.

<http://www.navair.navy.mil>

### SPACE AND NAVAL WARFARE SYSTEMS COMMAND

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**Mission:** To provide the warfighter with knowledge superiority by developing, delivering, and maintaining effective, capable, and integrated command, control, communications, computer, intelligence, and surveillance systems.

<http://www.spawar.navy.mil>

### NAVAL FACILITIES ENGINEERING COMMAND

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**Mission:** To manage the planning, design, construction, contingency engineering, real estate, environmental, and public works support for U.S. Navy shore facilities around the world; and to provide the Navy's forces with the operating, expeditionary, support, and training bases they need.

<http://www.navfac.navy.mil>

### NAVAL SUPPLY SYSTEMS COMMAND

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**Mission:** To provide U.S. Naval, Joint, and Allied forces with quality supplies and services on a timely basis with "One Touch Supply."

<http://www.navsup.navy.mil>

### STRATEGIC SYSTEMS PROGRAMS

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**Mission:** To serve our nation by providing credible and affordable sea-based deterrent missile systems.

(No website available)

### BUREAU OF MEDICINE AND SURGERY

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**Mission:** To provide a comprehensive healthcare delivery system of shore-based treatment facilities and operating forces for the Navy and Marine Corps; and to ensure the provision of medical and dental care and services for Navy and Marine Corps personnel, other uniformed services personnel, and eligible beneficiaries authorized by law or regulation.

<http://navymedicine.med.navy.mil>

### NAVY PERSONNEL COMMAND

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**Mission:** To support the needs of the Navy by providing the Fleet with the right person in the right place at the right time; and to satisfy our Sailors' quality of service by providing them with meaningful and rewarding career opportunities, promoting and retaining the best, and ensuring fair and equitable treatment of all hands at all times.

<http://www.npc.navy.mil>

#### NAVAL EDUCATION AND TRAINING COMMAND

**Mission:** To educate and train those who serve by providing the tools and opportunities that ensure fleet readiness and mission accomplishment, enhance professional and personal growth and development, and enable life-long learning.

<https://www.cnet.navy.mil/index.asp>

#### OFFICE OF NAVAL INTELLIGENCE

**Mission:** To provide products and services to meet Navy, Department of Defense, and national maritime intelligence requirements, and to perform such other functions and tasks as may be assigned by higher authority.

(No website available)

#### FIELD SUPPORT ACTIVITY

**Mission:** To initiate action in matters pertaining to the provision of funds, manpower, and facilities to assigned unified commands, Navy headquarters and activities; and to evaluate the utilization of such resources and initiate or recommend appropriate corrective action.

(No website available)

#### NAVY INSTALLATIONS COMMAND

**Mission:** To enable and enhance Navy combat power by providing the most effective, efficient and cost-wise shore services and support.

<http://www.cni.navy.mil>



*A Damage Controlman 2nd Class, assigned to the guided missile destroyer USS Mustin (DDG 89), receives a final brief before conducting Maritime Security Operations in the Persian Gulf.*



*A Landing Craft, Air Cushion (LCAC) assigned to Assault Craft Unit Four (ACU-4), exits the well deck of the amphibious assault ship USS Kearsarge (LHD 3).*

### ORGANIZATIONAL CHANGES

Shore Establishment commands continued to improve organizational alignment in FY2005. Some examples of organizational changes appear below.

Space and Naval Warfare Systems Command (SPAWAR). SPAWAR successfully executed a reorganization of its C4I (Command, Control, Communication, Computers and Intelligence) and space program office in FY2005. The new organizational structure reduces the total number of program offices and combines functional and platform-based capabilities to more coherently drive the acquisition process and to facilitate development and delivery of integrated C4I capabilities across naval and joint platforms.

Naval Facilities Engineering Command (NAVFAC). NAVFAC continued the transformation of its worldwide organization. In coordination with the Navy Installations Command, Naval Supply Systems Command, and Headquarters, U.S. Marine Corps, NAVFAC is aligning its component commands into Facilities Engineering Commands. This alignment will enable NAVFAC to improve accountability and responsiveness to Regional Commanders, and to create savings that can be reinvested by Navy and Marine Corps senior leadership. NAVFAC anticipates completion of this structural alignment by FY2006.

Naval Supply Systems Command (NAVSUP). NAVSUP, in collaboration with the Commander, Fleet and Industrial Supply Centers, continued its organizational transformation. Specifically, NAVSUP initiated the transfer of selected industrial logistics operations from Naval Air Systems Command, Naval Sea Systems Command, and the Space and Naval Warfare Systems Command to the Fleet and Industrial Supply Centers. Also, NAVSUP began a worldwide movement of supply chain management and contracting responsibilities from Commander, Navy Installations to the Fleet and Industrial Supply Centers. The benefits of these initiatives will allow for the leveraging of enterprise-wide capabilities, streamlining of delivery models, and elimination of duplicate tasks.

Strategic Systems Programs (SSP). SSP completed the reorganization and downsizing of its program management offices. The purpose of these changes is to improve efficiency, better align field activity support, consolidate common functional activities, and leverage core competencies.

Bureau of Medicine and Surgery (BUMED). BUMED continued the realignment of its organization. Specifically, the military command of the Chief, BUMED is now responsible for all Navy medical and dental commands. Also, BUMED is centralizing policy functions at headquarters level and transferring execution functions to the regional commands. BUMED plans to complete its decentralization initiative by fiscal year-end 2006.

Navy Personnel Command (NAVPERS). The Office of the Chief of Naval Operations integrated the mission and functions of the Director, Naval Education and Training and the Deputy Chief of Naval Operations (Manpower and Personnel) to create a single resource sponsor for manpower and training - Deputy Chief of Naval Operations (Manpower, Personnel, Training and Education).

Naval Education and Training Command (NETC). NETC continued its organizational transformation under the Revolution in Training (RIT) initiative. The purpose of this initiative is to improve the development and delivery of naval education and training. Formal implementation of this initiative began in November 2002 with the Secretary of the Navy's approval of six learning centers. Since then, several NETC organizational changes have occurred, including the disestablishment of training centers in San Diego, California; Mayport, Florida; and Norfolk, Virginia.



*A U.S. Navy Aviation Warfare Systems Operator 1st Class checks on the lowered search and rescue swimmer during a search and rescue mission over New Orleans.*



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### Field Support Activity (FSA)

- **Naval Legal Service Command.** The Commander, Navy Installations and the Judge Advocate General executed a Memorandum of Agreement that establishes regional legal services offices. The goal of this organizational change is to improve legal service support. The memorandum will serve as a charter for additional regional legal services offices in subsequent fiscal years.
- **Naval Historical Center.** The Vice Chief of Naval Operations Corporate Board directed realignment of all Navy museums under the Director of Naval History. The purpose of this realignment is to provide increased visibility and accountability for the Navy's museums.
- **Naval Safety Center.** The Naval Safety Center completed an internal reorganization to better align resources to customer needs and to focus on areas where the greatest risk of loss exists.
- **U.S. Naval Academy.** The Naval Academy created an Officer Development System (ODS) to strengthen and align all officer development functions for midshipmen. ODS was created through the internal reorganization of the Character Development staff and the Department of Leadership, Ethics and Law under one Navy Captain, the Director of Officer Development.

Navy Installations Command (CNI). CNI has begun to establish a Financial Management Center of Excellence that will provide support to all CNI regions and activities worldwide. As a result, CNI expects a decrease in manning requirements in FYs 2006 and 2007.

## WORKFORCE TRENDS

Workforce trends vary among the Shore Establishment commands. Some examples of these trends appear below.

Naval Air Systems Command (NAVAIR). NAVAIR's future workforce will likely be the result of an extensive human capital strategy that it has begun to develop. The command has been examining all areas of human capital, including diversity, workforce aging, and skill mix.

Naval Facilities Engineering Command (NAVFAC). NAVFAC's civilian and contractor workforce has declined over the last three fiscal years due to its ongoing transformation initiative. NAVFAC expects further reductions in workforce, including military personnel, as it continues to streamline its organization.

Naval Supply Systems Command (NAVSUP). NAVSUP's civilian workforce has declined nearly 70 percent from 1,517 personnel to 500 personnel over the past few years. This decline is primarily due to shifting some employees at the Fleet and Industrial Supply Centers from the General Fund (Operation and Maintenance, Navy appropriation) to the Navy Working Capital Fund.

Strategic Systems Programs (SSP). SSP workforce demographics remained unchanged over the last four years, with approximately forty percent in the age bracket of 50-59 years. Nine percent of SSP personnel are 60 years or older.

Bureau of Medicine and Surgery (BUMED). BUMED increased its efforts over the last three years to recruit and retain Navy Medicine civilian practitioners in areas such as nursing and pharmacy due to competition from the private and public sectors. Recruitment and retention incentives, flexible hiring authorities, special salary rates and appeals to patriotism have made it possible to replace clinical staff that the command has lost to the private sector and to other federal government health care providers, such as the Veterans Administration and National Institutes of Health. However, over the next six years, BUMED anticipates an upward trend in its Navy Medicine civilian workforce due to military-to-civilian conversions.

Naval Education and Training Command (NETC). NETC's civilian and military workforce has declined since FY2004 due to its Revolution in Training initiative. NETC expects further reductions in workforce due to organizational realignments under Base Realignment and Closure 2005.

Office of Naval Intelligence (ONI). ONI anticipates an increase in its civilian workforce in FY2006 due to reinstatement of civilians under reimbursable appropriations.

Field Support Activity (FSA)

- **Naval Legal Service Command.** The command plans to reduce its military workforce in FY2006 under the military-to-civilian conversion program. Replacement of enlisted personnel with civilians will generate savings for the Navy due to lower personnel costs.
- **Naval Historical Center.** The center's workforce remained steady over the last three fiscal years while the fleet's demand for history steadily increased. The center anticipates an increase in workload after FY2005 due to records, artifacts, and artwork from deactivating units and installations.
- **Naval Safety Center.** The Naval Safety Center reduced its civilian workforce in FY2004 and plans to disestablish a reserve detachment in FY2006, which will result in a reduction in military personnel.
- **U.S. Naval Academy.** Shortfalls in funding have resulted in insufficient funds to replace retiring full-time tenure track faculty members with other full-time tenure track candidates. As a result, the percentage of part-time adjunct faculty members has doubled, from 8.15 percent in FY2002 to 16.05 percent in FY2005. This trend has a direct negative impact on the quality of academic education at the Naval Academy. Navy leadership has addressed this funding shortfall and the trend should begin to reverse in FY2006.

Navy Installations Command (CNI). With the migration of many regions and their activities under CNI, the command faces inherent Navy concerns of an aging workforce and the potential loss of continuity and expertise.

### MAJOR INITIATIVES AND ACCOMPLISHMENTS

Shore Establishment commands implemented a broad range of initiatives in FY2005 to increase naval capabilities and to improve command organizations and business practices. Some examples of initiatives and accomplishments appear below.

Naval Sea Systems Command (NAVSEA). NAVSEA Program Executive Offices, in collaboration with the NAVSEA Comptroller's Office, initiated a project designed to streamline the funding document process by using Lean Six Sigma methods. NAVSEA successfully conducted five concurrent pilots. The command will continue to identify efficiencies that will improve the effectiveness of the funding document process.

Naval Air Systems Command (NAVAIR). NAVAIR applied Lean Six Sigma methods in a pilot project designed to improve its funding document process. As a result, NAVAIR was able to reduce the cycle time of document reviews while maintaining the fiscal integrity of the process.

Space and Naval Warfare Systems Command (SPAWAR). SPAWAR accelerated progress in network centric warfare by developing a comprehensive Command, Control, Communication, Computers and Intelligence (C4I) Integrated Roadmap. This roadmap will become the path to FORCEnet, the operational construct and architectural framework for integrating network centric warfare capabilities across the naval enterprise, the Department of Defense, and coalition partners.

Naval Facilities Engineering Command (NAVFAC). NAVFAC continued to exceed Department of Defense environmental cleanup goals. For the fourth consecutive year, NAVFAC completed more environmental cleanup than expected, reducing cost of completion by \$500 million.

Naval Supply Systems Command (NAVSUP). NAVSUP channeled its business transformation efforts toward improving the quality of its products and services. The command has begun implementing Lean Six Sigma methods to achieve this goal.

Strategic Systems Programs (SSP). SSP continued to demonstrate effective management of the Trident II (D5) program. Trident II is an intercontinental ballistic missile launched from nuclear-powered Ohio-class submarines. Trident II (D5) met and, in some cases, exceeded Commander, U.S. Strategic Command confidence and reliability requirements.

Bureau of Medicine and Surgery (BUMED). BUMED achieved greater responsibility in the Operation Iraqi Freedom medical mission. This responsibility includes the field hospital in Kuwait and support of intra-theater air evacuation capabilities.

Office of Naval Intelligence (ONI). ONI broadened its sphere of influence in community, theater, and fleet intelligence. Specifically, the command increased its level of contribution, virtual and physical presence, and participation in intelligence products, services, and system architecture development.



*A Tactical Tomahawk Block IV cruise missile.*

Field Support Activity (FSA)

- **Naval Legal Service Command.** The Judge Advocate General (JAG) gained more decision-making authority over JAG Corps requirements. This was the direct result of a JAG Corps realignment authorized by the Chief of Naval Operations.
- **Naval Historical Center.** The Director of Naval History gained more decision-making authority over museum operations. This was the direct result of a museum realignment authorized by the Vice Chief of Naval Operations Corporate Board.
- **Naval Safety Center.** The Naval Safety Center broadened its sphere of influence within the Department. Specifically, the command, in collaboration with the Naval Education and Training Command, established a presence on the Navy Knowledge Online, a learning portal.
- **U.S. Naval Academy.** The Naval Academy graduated a total of 976 graduates, of which 973 were commissioned graduates. The commissioned graduates will enter service with an accredited Bachelor of Science degree that includes a core curriculum of math, science, and engineering.

Navy Installations Command (CNI). CNI progressed toward its goal of financial management competence. Specifically, the command issued a professional development guide that includes a matrix of recommended training courses and other professional development vehicles that can assist personnel in obtaining financial knowledge and expertise.



*Pilots and Maintenance Personnel assigned to the Blue Angels Maintenance and Support Team stand at parade rest in front of their F/A-18 Hornets at Boeing air field, following the first day of practice for Seattle's Seafair air show.*

## MARINE CORPS ORGANIZATION

### ORGANIZATION AND MISSION

The Marine Corps Organization is comprised of headquarters offices, operating forces, reserves, and supporting establishment.



### HEADQUARTERS, U.S. MARINE CORPS

Headquarters, U.S. Marine Corps is comprised of the Commandant of the Marine Corps and staff offices and commands that advise and assist in discharging his responsibilities. This includes the administration, discipline, internal organization, training requirements, efficiency, and readiness of the service.



*A formation of Marines assigned to Marine Forces Pacific, Hawaii perform the ceremonial "Rifle Volley Salute" during the 60th Anniversary of the end of World War II held aboard the USS Missouri (BB 63) Memorial.*



## OPERATING FORCES

Renowned as the "First to Fight," the Marine Corps Operating Forces - the heart of the Marine Corps - comprise the forward-presence, crisis-response, and fighting power that the Corps makes available to U.S. Unified Combatant Commanders. The Marine Corps has established two combatant command level component commands: Marine Corps Forces Atlantic and Marine Corps Forces Pacific.

### MARINE CORPS FORCES ATLANTIC

During peacetime the Marine Corps Forces Atlantic provide the II Marine Expeditionary Force to the Commander, U.S. Joint Forces Command. When directed by the Secretary of Defense, forces are assigned for contingency planning to the geographic combatant commands.

### MARINE CORPS FORCES PACIFIC

Marine Corps Forces Pacific provide the I and III Marine Expeditionary Forces to the Commander, U.S. Pacific Command. Marine Forces are apportioned to the geographic combatant commands when directed by the Secretary of Defense and assigned for contingency planning.

## RESERVES

The Marine Corps Reserves are responsible for providing trained units and qualified individuals to be mobilized for active duty in time of war, national emergency, or contingency operations and provide personnel and operational temporary relief for active component forces in peacetime. Marine Corps force expansion is made possible by activation of the Marine Corps Reserves, which like the active forces, consist of a combined-arms force with balanced ground, aviation, and combat service support units. Organized under the Commander, Marine Forces Reserve, units are located at 185 training centers in 47 states, Puerto Rico, and the District of Columbia. The reserve component has been closely integrated with the active component under the Marine Corps Total Force concept. The ethos for Marine Forces Reserve is mobilization and combat readiness. This ensures the men and women of the Reserve stand ready, willing, and able to answer the nation's call at home and abroad at a moment's notice.



*Marines assigned to the 26th Marine Expeditionary Unit (MEU) practice fast roping from the back ramp of an CH-46 Sea Knight helicopter on the flight deck.*

### SUPPORTING ESTABLISHMENT

The Marine Corps Supporting Establishment consists of those personnel, bases, and activities that support the Marine Corps operating forces, and provides the necessary infrastructure for enabling combat-ready operating forces. This infrastructure primarily consists of 15 major bases and stations in the U.S. and Japan, as well as the personnel, equipment, and facilities to operate them. Included are the Marine Corps Recruiting Command, the Marine Corps Combat Development Command, the Marine Corps Logistics Command, and the Marine Corps Systems Command.

#### MARINE CORPS RECRUITING COMMAND

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**Mission:** To procure qualified individuals, in sufficient numbers to meet the established personnel strength levels, officer and enlisted, of the Marine Corps.

#### MARINE CORPS COMBAT DEVELOPMENT COMMAND

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**Mission:** To develop Marine Corps war-fighting concepts and to determine associated required capabilities in the areas of doctrine, organization, training and education, equipment, support, and facilities to enable the Marine Corps to field combat-ready forces; and participate in and support other major processes of the Combat Development System.

#### MARINE CORPS LOGISTICS COMMAND

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**Mission:** To provide worldwide, integrated logistics/supply chain and distribution management; depot level maintenance management; and strategic prepositioning capability in support of the operating forces and other supported units to maximize their readiness and sustainability and to support enterprise and program level Total Life Cycle Management.

#### MARINE CORPS SYSTEMS COMMAND

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**Mission:** To serve as the Commandant's principal agent for acquisition and sustainment of systems and equipment used by the Operating Forces to accomplish their warfighting mission. The Marine Corps Systems Command has charted a course to world-class status in acquisition services. Its innovative business processes will serve as the cornerstones of mission achievement to provide and expertly manage the life cycle of quality systems and equipment for the operating forces. We envision a high-performance staff operating in a professional environment based on our guiding principles of integrity, mutual respect, accountability, excellence, innovation, teamwork, customer-focus, and open communication.

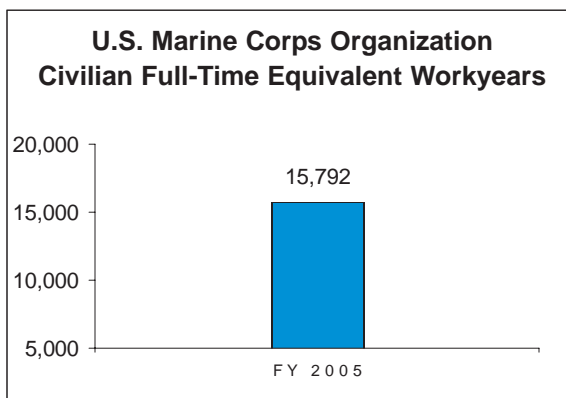
### WORKFORCE TRENDS

Marine Corps demographics remained relatively unchanged over the last three years. The majority of Corps officers (at least 50 percent) are between the ages of 26 and 35 years. Nearly 50 percent of enlisted personnel are 19 to 22 years of age.

## MAJOR INITIATIVES AND ACCOMPLISHMENTS

The Marine Corps continued to play a vital role in restoring stability and security in Iraq. Most notably, the Corps has been helping the Iraqi people rebuild their national infrastructure and providing humanitarian assistance. Other notable achievements include the Marine Corps Financial Improvement Initiative and establishment of the Marine Corps Business Enterprise Office. The Marine Corps Financial Improvement Initiative provides an integrated financial management roadmap for implementing corrective actions, with the goal of achieving accurate, timely, reliable, and auditable financial information in support of the warfighter. To achieve this goal, the Marine Corps developed a coherent and realistic strategic plan that integrates its financial improvement initiatives. Key characteristics of the plan include well-defined objectives, results-oriented performance measures, and improved visibility of resource utilization to support the Marine Corps mission. Also, the plan addresses business processes in five key strategic areas: Information Systems, Management Control, Policies and Procedures, Organization and Infrastructure, and People. The plan is a "living" document that enables the Marine Corps to assign accountability and responsibility for improving financial operations. The Marine Corps will adapt the plan as required to changing environments and business practices to achieve data integrity and to produce auditable financial statements.

Additionally, the Marine Corps established a Business Enterprise Office to ensure that its business processes provide effective support to the warfighter, Marines, and family members without consuming any unnecessary resources. The Marine Corps Business Enterprise Office crosses all organizational boundaries and includes all resources, processes, and products and services that support the warfighter. The Marine Corps is aggressively pursuing business initiatives to drive innovation and change, initiating end-to-end process improvements, and developing the business skills and capabilities of Marines and Civilian Marines to accomplish Corps objectives. (See "Strategic Management, Improved Business Practices" for more information on the Marine Corps Business Enterprise Office.)



*Commandant of the Marine Corps, General Michael Hagee recognizes selected Marines for their sustained superior performance during a ceremony on the flight deck aboard the amphibious assault ship USS Kearsarge (LHD 3).*

## NAVY WORKING CAPITAL FUND

In contrast to the DON General Fund (discussed in the preceding section), the second DON reporting entity - the Navy Working Capital Fund - is a revolving fund established to meet the diverse requirements of the Navy and Marine Corps operating forces. Under the revolving fund concept, an appropriation or a transfer of funds finances initial Navy Working Capital Fund (NWCF) operations; payments from customers for goods delivered or services performed subsequently replenish this initial working capital and enable a continuous cycle of operations, negating the need for annual appropriations by Congress.

The goal of the NWCF is to break even over time by matching revenues earned to costs incurred. Achievement of this goal is occasionally complicated by the requirement that NWCF business areas maintain stable prices for goods and services, to protect their customers from unforeseen price fluctuations.

### BUSINESS AREAS AND RELATED ACTIVITIES

NWCF has five business areas: Supply Management, Depot Maintenance, Research and Development, Transportation, and Base Support. Each business area is responsible for one or more business activities (see illustration).

#### NAVY WORKING CAPITAL FUND BUSINESS ACTIVITIES BY BUSINESS AREA



The NWCF business areas use specific performance measures to assess the effectiveness and efficiency of operations. Examples of these performance measures include average customer wait time (Supply Management); direct labor indicators (Depot Maintenance, Research and Development, and Base Support); and readiness (Transportation).

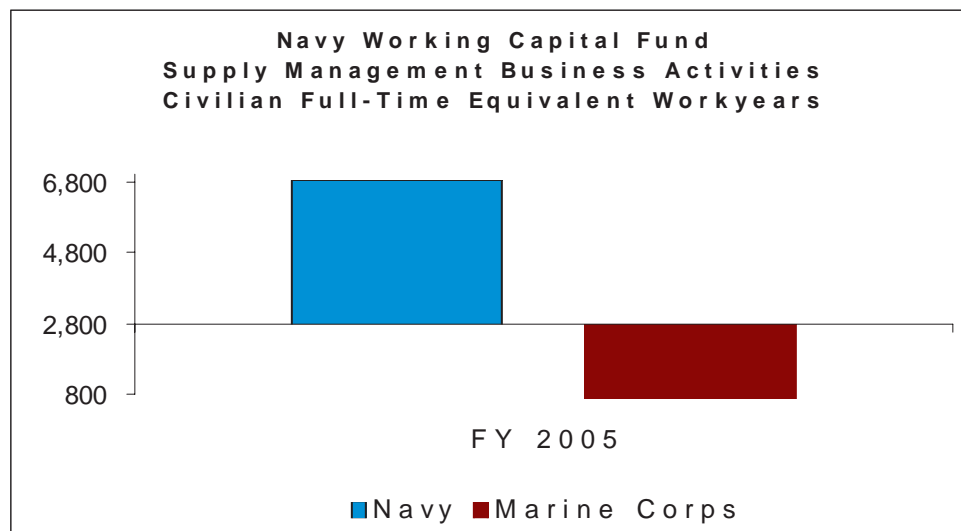
NWCF customers include primarily the Navy and Marine Corps operating forces but also include the Departments of the Air Force and Army, Department of Defense agencies, and other Federal agencies.

Below is a brief discussion of each NWCF business area, identifying the mission, number of personnel, and major initiatives or accomplishments of that business area for FY2005.

## SUPPLY MANAGEMENT

### ORGANIZATION AND MISSION

Supply Management, Navy operates under the purview of the Naval Supply Systems Command. Supply Management, Marine Corps operates under the purview of the Marine Corps Logistics Command.



#### SUPPLY MANAGEMENT, NAVY

**Mission:** To provide Navy, Marine Corps, Joint and Allied Forces quality supplies and services on a timely basis.

#### SUPPLY MANAGEMENT, MARINE CORPS

**Mission:** To perform inventory management functions that result in sale of consumable and reparable items to support both the Department of Defense and other government agencies.



### ORGANIZATIONAL CHANGES

Supply Management, Navy. Fleet and Industrial Supply Center (FISC) Sigonella, Italy was officially established in March 2005, becoming the seventh and newest FISC to join the Commander, Fleet & Industrial Supply Centers (COMFISCS) worldwide network.

Supply Management, Marine Corps. At fiscal year-end 2005, the Direct Support Stock Control in Twentynine Palms, California will no longer be included within the supply management business area. The General Services Administration will become the supply source for this operation.

### WORKFORCE TRENDS

Supply Management, Navy. The civilian workforce has grown from 5,743 actual end strength in FY2003 to 6,993 end strength in FY2005. The growth is attributable to functional transfers that took place in FY2005, such as the Navy Regional Contracting Center and Portsmouth Naval Shipyard supply and contracting functions, and the change in categorizing some FISC employees from the General Fund (Operations and Maintenance, Navy) to NWCF. Additionally, in FY2006 there will be significant growth in the civilian workforce (approximately 1,000 civilian personnel) due to implementation of the Material Support Integration effort at COMFISCS. This effort also includes personnel transfers resulting from the stand-up of FISC Sigonella.

Supply Management, Marine Corps. The civilian workforce has declined since FY2004 due to cost reduction efforts. The Marine Corps anticipates civilian workforce to remain constant after FY2005.



*Sailors assigned to the underway replenishment detail aboard the Nimitz class aircraft carrier USS Harry S. Truman (CVN 75) heave in a line while preparing to receive relief supplies.*

## MAJOR INITIATIVES AND ACCOMPLISHMENTS

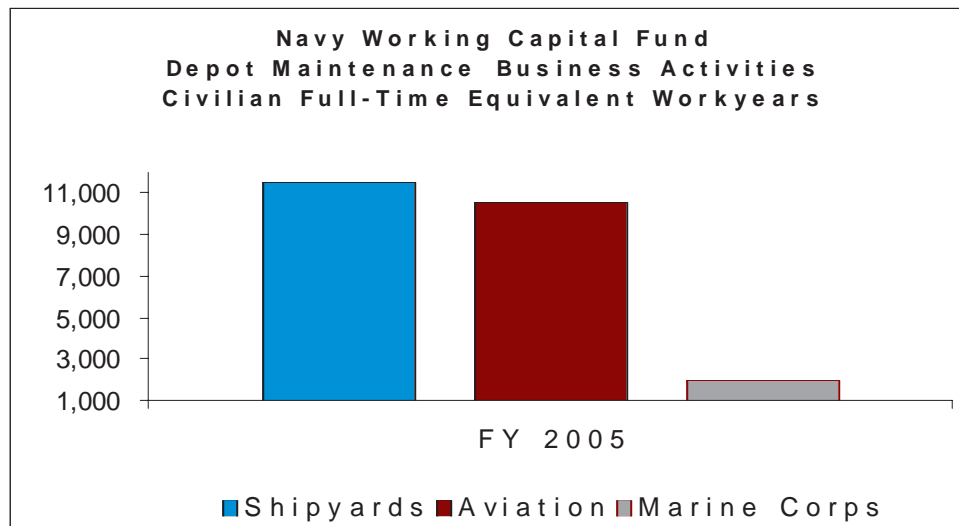
Supply Management, Navy. The Naval Supply Systems Command and Naval Air Systems Command (NAVAIR) Supply Maintenance Aviation Reengineering Team (SMART) Enterprise Resource Planning (ERP) pilot was a success. The SMART ERP Pilot, which was retired in April 2005, was able to integrate the supply, maintenance, and financial processes for both wholesale and retail material into a single database. These achievements helped pave the way for the larger Navy Converged ERP.

Supply Management, Marine Corps. The Marine Corps continued to focus on the transformation of distribution and maintenance systems as outlined in the Logistics Modernization plan. The purpose of the plan is to improve the processes and technology supporting Marine Air Ground Task Force (MAGTF) operations. These business process re-engineering efforts are enhancing managers' knowledge of customers' operational requirements and enabling more efficient and effective budget forecasting.

## DEPOT MAINTENANCE

The Depot Maintenance activities operate under the purview of their respective commands:

- Depot Maintenance, Shipyards - Naval Sea Systems Command
- Depot Maintenance, Aviation - Naval Air Systems Command
- Depot Maintenance, Marine Corps - Marine Corps Logistics Command



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### DEPOT MAINTENANCE, SHIPYARDS

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**Mission:** To provide logistics support for assigned ships and service craft; perform authorized work in connection with construction, overhaul, repair, alteration, drydocking and outfitting of ships and craft as assigned; perform design, manufacturing, refit and restoration, research and development, test work, and provide services and material to other activities and units as directed by competent authority.

### DEPOT MAINTENANCE, AVIATION

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**Mission:** To provide responsive worldwide maintenance, engineering, and logistics support to the Fleet and ensure a core industrial resource base essential for mobilization; repair aircraft, engines, and components, and manufacture parts and assemblies; provide engineering services in the development of hardware design changes, and furnish technical and other professional services on maintenance and logistics problems.

### DEPOT MAINTENANCE, MARINE CORPS

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**Mission:** To provide the quality products and responsive maintenance support services required to maintain a core industrial base in support of mobilization, surge, and reconstitution requirements.

## ORGANIZATIONAL CHANGES

Depot Maintenance activities did not undergo organizational changes in FY2005.

## WORKFORCE TRENDS

Depot Maintenance, Shipyards. Civilian end strength and workyear estimates have been matched to workload and reflect continued streamlining of shipyard processes and increased productivity.

Depot Maintenance, Marine Corps. The Marine Corps plans to reduce the current depot maintenance workforce in FYs 2006 and 2007. This will be accomplished through the release of the majority of temporary employees hired to support the combat effort. The remaining workforce will consist of permanent personnel augmented by temporary personnel.

The Marine Corps Maintenance Centers are working toward maintaining a permanent workforce that is appropriately sized for years when workload is reduced to a minimum. Due to declining Marine Corps customer funding levels, it will be imperative to seek additional workload in order to maintain the expertise of more than 70 different skill sets of personnel. Having trained personnel readily available to perform work will ensure there is no impact to the readiness levels of the critical war fighting assets. This will also enable the Maintenance Centers to meet any unplanned requirements for reconstitution of battle-damaged equipment that materializes.

## MAJOR INITIATIVES AND ACCOMPLISHMENTS

Depot Maintenance, Shipyards. "One Shipyard" is a new maintenance concept to support the Fleet as it transitioned from rotational force to a surge force. One Shipyard initially focused on resource and infrastructure sharing among the shipyards, both public and private, through partnerships and flexible contracting vehicles to meet Fleet Response Plan requirements. The concept has evolved over the last year and a half to focus on standardizing and improving shipyard processes for efficiency and effectiveness, in support of Sea Enterprise objectives.

The Shipyard Lean Transformation represents NAVSEA's means of achieving the Naval Shipyard Intelligent Target Savings under One Shipyard. These savings commence in FY2006.

Depot Maintenance, Aviation. The Naval Air Systems Command depots at Cherry Point, North Carolina; Jacksonville, Florida; and North Island, California received numerous awards in FY2005. Examples of awards include: the Chief of Naval Operations Environmental Quality Award given to NAVAIR Depots Cherry Point and North Island; and the Secretary of the Navy Safety and Occupational Health Shore Safety Award given to NAVAIR Depot Jacksonville.

Depot Maintenance, Marine Corps. The Marine Corps Maintenance Centers in both Albany, Georgia and Barstow, California have been focusing on refining and expanding the already successful implementation of the Theory of Constraints (TOC) and the application of Lean Thinking to eliminate wasteful steps in shop-level procedures. TOC is the result of a successful partnership between production theories and better business practices. The success of this merger has representatives from the Army and Air Force depots traveling to Albany to see an exceptional example of a highly proficient, productive, and profitable depot. This also provides justification for continued implementation of TOC and Lean Thinking at the Maintenance Center in Barstow.

The registration of the Marine Corps Maintenance Centers under the International Organization for Standardization (ISO 9002) resulted from successful implementation of efforts such as Compass Contract, Manufacturing Resource Planning, and Earned Value Management. This has guaranteed the Maintenance Centers to be a viable participant to share business revenues with ISO-registered civilian contractors.

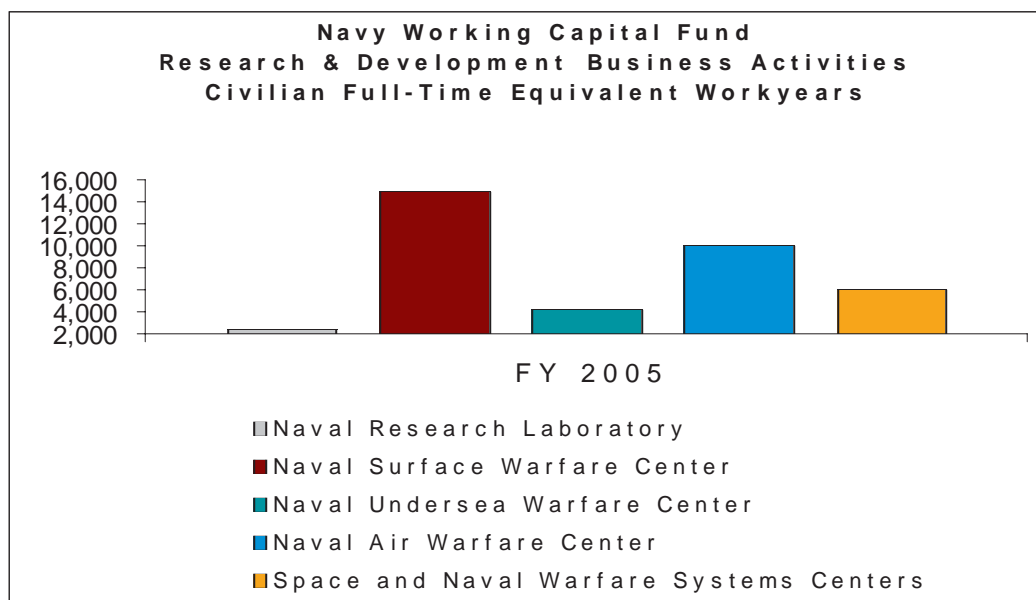


*Rear Admiral Michael P. Nowakowski, Commander Amphibious Group Two, addresses the crew and Marines of the Second Marine Expeditionary Brigade (2nd MEB) saying, "When you look in the mirror, you are looking at a hero."*

## RESEARCH AND DEVELOPMENT

The Research and Development business area consists of the Naval Research Laboratory and four naval warfare centers, all of which operate under the purview of their respective commands:

- Naval Research Laboratory - Chief of Naval Research, Assistant Secretary of the Navy (Research, Development, and Acquisition)
- Naval Surface Warfare Centers and Naval Undersea Warfare Centers - Naval Sea Systems Command
- Naval Air Warfare Centers - Naval Air Systems Command
- Space and Naval Warfare Systems Centers - Space and Naval Warfare Systems Command



### NAVAL RESEARCH LABORATORY

**Mission:** To operate the Navy's full spectrum corporate laboratory, conducting a broadly based multidisciplinary program of scientific research and advanced technological development directed toward maritime applications of new and improved materials, techniques, equipment, systems and ocean, atmospheric, and space sciences and related technologies.

### NAVAL SURFACE WARFARE CENTERS

**Mission:** To operate the Navy's full spectrum research, development, test and evaluation, engineering and fleet support center for ship hull, mechanical, and electrical systems, surface combat systems, coastal warfare systems, and other offensive and defensive systems associated with surface warfare.

### NAVAL UNDERSEA WARFARE CENTERS

**Mission:** To operate the Navy's full spectrum research, development, test and evaluation, engineering and fleet support center for submarines, autonomous underwater systems, and offensive and defensive weapons systems associated with undersea warfare.



## NAVAL AIR WARFARE CENTERS

### AIRCRAFT DIVISION

**Mission:** To operate the Navy's principal research, development, test and evaluation, engineering, and fleet support activity for naval aircraft engines, avionics, and aircraft support systems and ship/shore/air operations.

### WEAPONS DIVISION

**Mission:** To operate as the Navy's full spectrum research, development, test and evaluation in-service engineering center for air warfare weapons systems (except anti-submarine warfare systems), missiles and missile subsystems, aircraft weapons integration, and assigned airborne electronic warfare systems; and as the DON's air, land, and sea test ranges.

### SPACE AND NAVAL WARFARE SYSTEMS CENTERS

**Mission:** To operate the Navy's full spectrum research, development, test and evaluation, engineering, and fleet support centers for command, control, and communication systems and ocean surveillance and the integration of those systems that overarch multiple platforms.



*Sailors assigned to the Weapons Department, G-1 division aboard the aircraft carrier USS Abraham Lincoln (CVN 72), watch as an HH-60H Seahawk brings ordnance aboard.*

### ORGANIZATIONAL CHANGES

Naval Air Warfare Centers. The Naval Air Warfare Centers established Centers of Excellence for Budgeting (Aircraft Division) and Accounting (Weapons Divisions). The Centers of Excellence have enabled the Naval Air Warfare Centers to further streamline their budgeting and accounting processes and reduce institutional costs.

### WORKFORCE TRENDS

Naval Research Laboratory (NRL). The NRL workforce remained fairly stable with approximately 2,500 civilian employees, of which over 1,700 are scientists, engineers, and technicians. At least 1,100 personnel have post-graduate degrees, with over 800 holding doctorate degrees. Given that science and technology funding levels are anticipated to remain steady, NRL does not expect major changes in its workforce.

Space and Naval Warfare Systems Centers (SSCs). Like many naval organizations, the SSCs have a high proportion of the current workforce that is eligible to retire in the near future. The SSCs will continue their efforts to attract and retain talented professionals to revitalize the workforce.

### MAJOR INITIATIVES AND ACCOMPLISHMENTS

Naval Research Laboratory (NRL). NRL continued to maintain a balanced research and development program that invests in: (1) a broad spectrum of new science and technology initiatives that have the potential to significantly enhance the future war fighting capabilities of the Navy and Marine Corps; and (2) more focused development work intended to rapidly transition recent research results and technological developments into both existing and developmental military systems. Some examples of recent accomplishments include:

- **New flexible arm and leg protective armor for ground troops.** The armor is designed to reduce the likelihood of severe injuries by protecting against the large number of smaller blast fragments generated by lethal explosive devices. The armor is already in production so that it can be provided to Marine Corps combat units in Iraq.
- **Self-decontaminating ultra-thin materials coating.** The coating neutralizes toxins on contact leaving no hazardous residue, making it ideal for use in protective clothing, water purification filters, and chemical-spill clean-up wipes.
- **Universal Communication Interface Module (UCIM).** UCIM provides a standardized Command, Control, Communications, Computers, and Intelligence (C4I) network architecture that can be implemented across multiple Marine Corps and Navy platforms. The UCIM is a team effort involving NRL, the Office of Naval Research, and the Marine Corps Systems Command's PM Communications.

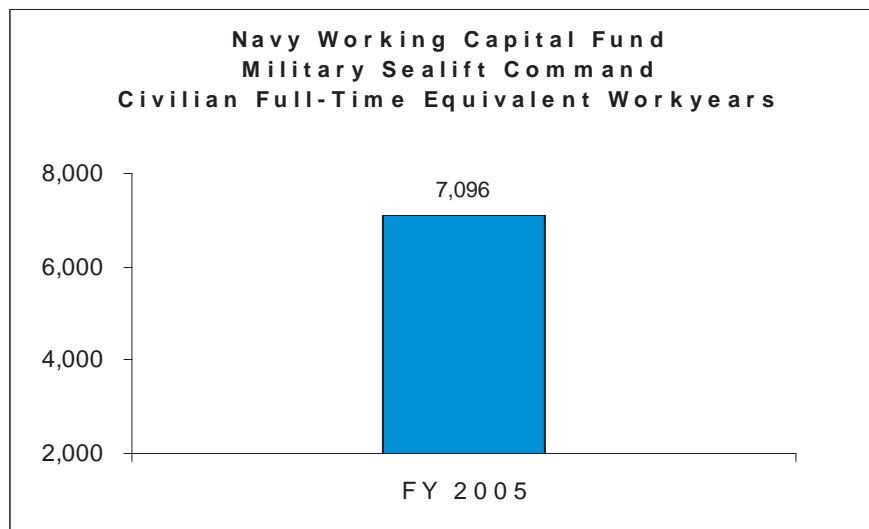
Naval Surface Warfare Centers (NSWCs). NSWCs have launched a major initiative to implement Lean Six Sigma principles. The ultimate goal is to be able to perform assigned work with fewer resources - people, capital, inventory, and contractor support.

Space and Naval Warfare Systems Centers (SSCs). SSC-Charleston updated the FORCEnet Implementation Baseline (FIBL) tool in 2005. FIBL provides the Navy with a collaborative decision support environment to facilitate migration to FORCEnet, the operational construct and architectural framework for integrating network centric warfare capabilities across the naval enterprise, the Department of Defense, and coalition partners. Similarly, in support of FORCEnet, SSC-Charleston developed the Naval Tool for Interoperability Risk Assessment (NTIRA) and Global Engineering Methodology Initiative for Naval Integration and Interoperability (GEMINII). NTIRA is a decision support tool that facilitates improvements to FORCEnet capabilities. GEMINII is a methodology for delivering network centric warfare capabilities across the FORCEnet enterprise.

## TRANSPORTATION

At the heart of the Transportation business area is the Military Sealift Command, which has dual reporting responsibilities to the DON as an NWCF activity, and to the U.S. Transportation Command. As an NWCF activity, the command supports three distinct ship programs:

- **Naval Fleet Auxiliary Force.** The NFAF provides fuel, food, ammunition, spare parts, and other supplies to enable the Navy fleet to operate at the highest possible tempo.
- **Special Mission Ships.** These ships provide oceanographic and hydrographic surveys, underwater surveillance, missile flight data collection and tracking services, acoustic research and submarine support, and other support for Department of Defense sponsors.
- **Afloat Pre-Positioning Force Ships - Navy.** These ships provide military equipment and supplies in key ocean areas for operating forces that later may be forward-deployed to those areas.



### MILITARY SEALIFT COMMAND

**Mission:** To provide ocean transportation of equipment, fuel, supplies, and ammunition to sustain U.S. forces worldwide during peacetime and in war for as long as operational requirements dictate.



*The Military Sealift Command (MSC) ammunition ship USNS Shasta (T-AE 33) underway following an ammunition transfer with the conventionally powered aircraft carrier USS Kitty Hawk (CV 63).*

### ORGANIZATIONAL CHANGES

The Military Sealift Command (MSC) has been working diligently to become a more efficient and effective organization. Under its organizational transformation initiative, MSC has been realigning its area commands with the Navy fleet commands to engender more war-fighting efficiency and synergy. Organizational changes include the following:

- MSC Atlantic merged with Navy Logistics Squadron Two to become the Sealift Logistics Command Atlantic.
- MSC assumed Navy Region Northwest's combat logistics force mission and operationally realigned with Commander, 3rd Fleet, MSC Pacific to become Sealift Logistics Command Pacific/Task Force 33.
- MSC Europe merged with Task Force 63, Sixth Fleet to become Commander, Task Force 63, Sixth Fleet. Similar organizational paradigms will result from mergers between the Fifth Fleet and MSC Central, and the Seventh Fleet and MSC Far East.

Beginning in FY2006, MSC will establish a new type of command in the Tidewater area of Virginia: Military Sealift Fleet Support Command (MSFSC). This new command will crew, train, maintain and equip MSC's civil service mariner-crewed, government-owned/government-operated ships worldwide. Similarly, in support of fleet customers, MSC will establish MSFSC Ship Support Units in Singapore, Italy, Japan, Guam, Bahrain, and San Diego, California to coordinate ship husbanding, maintenance, and repair services for government-owned/government-operated ships.

## WORKFORCE TRENDS

MSC anticipates military end strength to decrease by fiscal year-end 2005 primarily due to the elimination of USNS Capable (T-AGOS 16) military detachment and the transfer of communications function for the USNS Zeus (T-ARC 7) from military to civilian mariner operation.

MSC civilian mariner end strength increased by approximately 356 personnel primarily due to increases in ships such as the USNS Kilauea (T-AE 26) and the USNS Zeus (T-ARC 7). However, MSC had a decrease in civilian ashore end strength of 40 personnel by fiscal year-end 2005 due to organizational transformation.

## MAJOR INITIATIVES AND ACCOMPLISHMENTS

Many of MSC's more than 140 ships were heavily involved in providing humanitarian assistance and disaster relief to the people of Southeast Asia in response to the December 26, 2004 tsunami. Some examples of MSC's involvement appear below.

- The medical staff of MSC hospital ship, USNS Mercy (T-AH 19) treated more than 9,500 patients ashore and afloat.
- Six MSC maritime prepositioning ships collectively transported equipment and supplies to support 15,000 Marines for 30 days.
- Two MSC fleet replenishment oilers, USNS Tippecanoe (T-AO 199) and USNS John Ericsson (T-AO 194), provided fuel to Navy ships.
- Combat stores ship, USNS San Jose (T-AFS 7) and fast combat support ship, USNS Rainier (T-AOE 7) provided fuel and other supplies to Navy ships and activities ashore.
- Two MSC oceanographic ships, the USNS Mary Sears (T-AGS 65) and USNS John McDonnell (T-AGS 51) conducted hydrographic surveys of the ocean bottom where the 9.0 magnitude earthquake occurred.

Additionally, MSC has implemented cost-efficient measures that enable Sailors to focus on their primary mission of war-fighting. Specifically, MSC assigned civil service mariners aboard the USS Coronado (AGF 11) and USS Mount Whitney (LCC 20) with ship operation functions, such as navigation and engineering. This has enabled Sailors aboard these ships to shift their focus to combat systems and command, control, communication, computer system and intelligence missions.

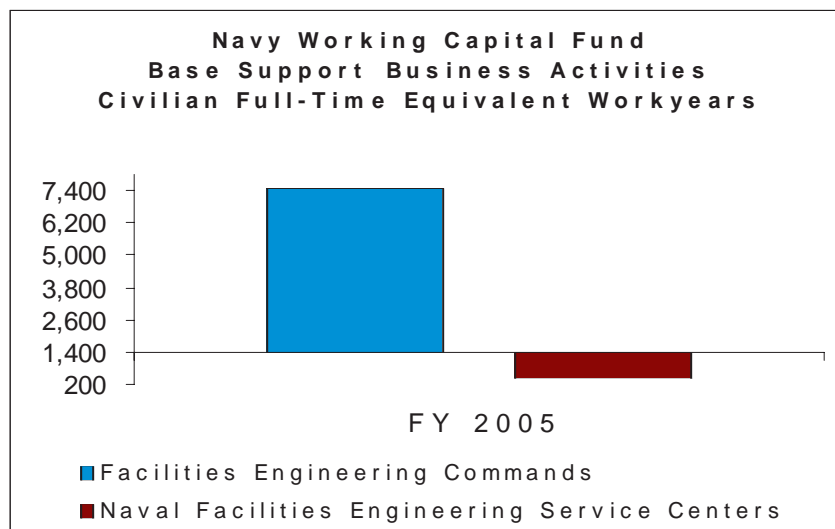


*Military Sealift Command (MSC) underway replenishment oiler USNS Walter S. Diehl (T-AO 193) provides fuel and supplies.*



## BASE SUPPORT

The Base Support business area consists of the Facilities Engineering Commands and the Naval Facilities Engineering Engineering Service Centers, operating under the purview of the Naval Facilities Engineering Command (NAVFAC).



### FACILITIES ENGINEERING COMMANDS

**Mission:** To provide the Department of Navy and other Defense and Federal clients with quality public works support and services, including utilities services, facilities maintenance, transportation support, engineering services, environmental services, and shore facilities planning support required by afloat and ashore operating forces and other activities.

### NAVAL FACILITIES ENGINEERING SERVICE CENTERS

**Mission:** To provide the Department of Navy and other Federal and Defense Agencies with quality specialized engineering and technology products and services for Energy and Utilities, Amphibious and Expeditionary Systems, Environment, Shore, Ocean, and Waterfront Facilities.



*An artist's rendering shows the final design proposal for the Presidential Helicopter (VXX) Program Support Facility that will support the test and evaluation of a new helicopter fleet for the President.*

## ORGANIZATIONAL CHANGES

In FY2005, Base Support activities continued Phase I of the Public Works Departments transition to Facilities Engineering Commands (FECs). Specifically, Base Support activities established an FEC at each of the former Public Works Centers Guam, Pearl Harbor, and San Diego. New names for these organizations are FEC Marianas, FEC Hawaii, and FEC Southwest, respectively. Phase II will begin in FY2006 in coordination with the Navy Installations Command (CNI). All remaining Public Works Departments in the continental U.S. will transition to FECs during Phase II. Public Works Departments in Europe will transition to FECs in FY2008.

## WORKFORCE TRENDS

Base Support activities have experienced fluctuations in workforce over the last three fiscal years. These fluctuations are due in part to management streamlining initiatives, workforce reshaping, and Installation Claimant Consolidation (ICC2). Base Support activities expect the workforce to increase with Public Works Departments transition and implementation.

## MAJOR INITIATIVES AND ACCOMPLISHMENTS

The Naval Facilities Engineering Service Centers established a wind farm at Naval Station Guantanamo Bay, Cuba. The wind/diesel hybrid is one of the DON's largest renewable energy projects to date. It is expected to save the Navy \$1.2 million in energy costs annually.

Additionally, the Naval Facilities Engineering Service Centers are working with the Bureau of Reclamation to test, evaluate, and document innovative water desalinization technologies. This project will help identify more energy efficient, cost-saving methods for generating drinking water from seawater for the Navy and Marine Corps team.



*Chief of Naval Operations, Admiral Mike Mullen in his office at the Pentagon.*

## STRATEGIC MANAGEMENT

*“The Navy and Marine Corps Team has embraced a culture of transformation that will enable us to develop new weapons systems, realign infrastructure, establish new concepts of operations, and streamline our business practices.”*

**The Honorable Gordon R. England, Secretary of the Navy, February 2005**

The DON has defined its vision for the near-term development of the Navy - Marine Corps Team in *Naval Power 21*. This vision elevates and enhances naval combat and operational capabilities in assuring sea-based access; projecting power, defense, and influence beyond the sea; and in support of continual transformation. Complementary strategies, the Navy's *Sea Power 21* and *Marine Corps Strategy 21*, support this vision by reinforcing and expanding operational concepts, such as sea basing and expeditionary maneuver warfare, that will advance our Navy - Marine Corps Team into the future as part of a joint force and that will ensure our team's dominance and success on tomorrow's battlefields. Other complementary strategies include those issued by the Assistant Secretaries of the Navy.

The Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN (FM&C)) issued a new strategic plan for the DON financial management community in April 2005 - *Transforming Today to Win Tomorrow*. The plan focuses on three critical areas: the long-term development of human capital, the continuous improvement of business practices, and the transparent communication of results to core constituents, especially the American taxpayer.

The ASN (FM&C) plan identifies the development of a cohesive and high-performing workforce as the first step toward more effective and efficient financial management, with retraining and new recruitment efforts seen as essential to ensure that the Department realizes a dynamic human resource capability. Second, internal business practices are to be improved to achieve accurate financial accounting and to ensure that managers have timely and accurate program cost information to inform their decision-making. The inclusion of performance assessment measures will become a routine part of funding and management decisions, to ensure that programs achieve their expected results. Finally, communication with customers is to be improved, with the twin objectives of ensuring that they are properly informed of DON activities and that the Department is properly responsive to their needs. In this area, e-government initiatives in particular will be critical. (A copy of the ASN(FM&C) plan is available at <http://www.finance.hg.navy.mil/fmc/>.)

Linking *Naval Power 21* and the complementary naval strategies are the DON's annual priority objectives, as issued by the Secretary of the Navy and included in the annual guidance of the Chief of Naval Operations and the Commandant of the Marine Corps. The 2005 priority objectives included prosecuting the Global War on Terror, advancing the DON Human Capital Strategy, and leveraging the 2005 Quadrennial Defense Review to influence the strategic direction of the Department of Defense and the DON.

To measure performance relative to strategic goals and objectives, the DON uses the Balanced Scorecard method and the related balanced scorecard for risk management. More information on DON performance measurement can be found in section, "Managing Risk - Performance Results."

## BALANCED SCORECARD

The DON Balanced Scorecard addresses four areas: People, Combat Capability, Technology Insertion, and Improved Business Practices. Objectives and selected achievements in these areas are discussed below.

## PEOPLE

*“A top priority of the DON is people — how they work, how they fight, how they live.”*

**Lead Statement, Office of the Assistant Secretary of the Navy (Manpower and Reserve Affairs) Vision**

The DON is striving to become a more efficient and effective organization. In the past three fiscal years, the Department has resized and realigned its organizational structure, in particular by reducing its civilian personnel levels and by converting military positions over to civilian staffing. It also has begun to develop a Human Capital Strategy that will provide a new framework for assessing, training, and developing its personnel, and for ensuring that they are appointed to positions in which they can work most effectively. This strategy is aligned with the Department of Defense's Human Capital Initiative and has been made in accordance with the President's Management Agenda and the priorities of the Secretary of Defense. Reshaping an organization as large and diverse as the DON is a long-term effort to which the Department is strongly committed.



*A Sailor assigned to the amphibious dock landing ship USS Duluth (LPD 6) hugs his son after returning from a six-month deployment in Southeast Asia and the Persian Gulf.*

We also are committed to the safety, welfare, and development of our people. As outlined below, we are working hard to protect our naval forces, to enhance the quality of life of our personnel and their families, and to empowering our Sailors, Marines, and civilian workforce through the use of new technologies.



### PROTECTING OUR NAVAL FORCES

The growth of international terrorism and the changing nature of the modern battlefield have made force protection a critical concern. Naval personnel on duty in Iraq and Afghanistan are particularly exposed to the dangers that this implies, and Sailors and Marines deployed to these regions are issued personal protective equipment. The Marine Corps Systems Command additionally has procured several thousand Armor Protection Enhancement Systems to augment this personal protective equipment. The DON seeks constantly to improve its technology and hardware. For example, the Marine Corps Systems Command and the Marine Corps Warfighting Lab, working in conjunction with the Army Developmental Test Command, have tested a range of materials for use in vehicle hardening, and several thousand vehicles already have been hardened. Other force protection efforts underway by the Department include the use of unmanned aerial and ground vehicles, language translation devices, and counter-sniper technology.

### SUPPORTING OUR NAVAL FORCES AND THEIR FAMILIES

The Department offers an array of services to enhance the quality of life of our Sailors and Marines and their families. In October 2004, the Commander, Navy Installations and Commander, Navy Personnel joined forces to establish a single Navy Personnel Support division. This collaborative relationship will ensure the best possible community support programs for our Navy community. The Marine Corps Community Services (under the Personal and Family Readiness Division under the Deputy Commandant for Manpower and Reserve Affairs) provides active duty, reserve, and retired Marine Corps personnel and their families with sports and physical fitness activities, child development and youth programs, and a variety of food and beverage services.



*A Marine Sergeant, Arabic linguist with the 2nd Radio Battalion, II Marine Expeditionary Force, spends a happy moment with his son after arriving at Camp Lejeune from a 10-month deployment in Iraq.*



## EMPOWERING OUR NAVAL FORCES

In addition to providing training specific to their duties it is essential that the Navy also provide opportunities for its Sailors and Marines to pursue their personal development. To this end, the DON has been expanding the range and availability of the educational and training opportunities that it offers. For example, in November 2004 the Navy migrated Navy E-Learning, a distance learning system, to the Navy Knowledge Online website (<http://nko.navy.mil>). Navy E-Learning makes available and tracks and manages nearly 4,000 different E-Learning courses, offered at no cost to the user. Approximately 1.2 million active duty Sailors, Marines, DON civilian employees, Reservists, retirees, and family members are enrolled in the Defense Enrollment Eligibility Reporting System (DEERS) and are eligible for these courses. As another example, in May 2005 the Marine Corps Center for Advanced Operational Cultural Studies began operations online, at <http://www.tecom.usmc.mil/caocl/#CAOCLWebsite>. In response to the emerging requirements of the Global War on Terror and associated stability and support operations, the Marine Corps has set up this center to ensure that Marines and Marine units are equipped with the knowledge and skills needed to successfully navigate the “cultural terrain” of the new environments in which we are operating. The center addresses cultural factors such as religion, ethnicity, language, and customs.

## EMPOWERING OUR CIVILIAN WORKFORCE

In FY2005 the Department of Defense began the first of three phases that will see civil service employees transition to the National Security Personnel System. Navy civilians at the Human Performance Center (under the Naval Education and Training Command) were among those selected to participate in this first transition phase. Mandated by the FY2004 National Defense Authorization Act, the National Security Personnel System is a management system covering staffing, workforce shaping, recruitment, compensation (pay banding), and performance management (pay for performance).



*Marines attached to the 15th Marine Expeditionary Unit (Special Operations Capable) stand clear of an explosion during demolitions training. The 15th MEU (SOC) is training in Kuwait to maintain their combat readiness.*

### COMBAT CAPABILITY

*“The Navy is first and foremost a fighting, sea-going service – always has been. The weapons and technology change. The ships, aircraft, and submarines...improve over time, but the job remains the same: to take the fight to the enemy so that he cannot take it to us.”*

Admiral Michael G. Mullen, Chief of Naval Operations, July 2005

*“We remain the nation’s premier expeditionary combat force-in-readiness....We project Marine forces from land or sea bases for operations as part of a joint or combined force.”*

General Michael W. Hagee, Commandant of the Marine Corps, April 2005

The Navy–Marine Corps team is evolving into a more agile force, capable of conducting the full spectrum of operational activities. In addition to combat, security, and force protection missions in Iraq and Afghanistan, for example, the Navy performed a major role in providing assistance and relief to the people of Indonesia, Sri Lanka, Thailand and other nations affected by the devastating Indian Ocean earthquake and tsunami in December 2004. The humanitarian operations in this area were led by forces from the USS Abraham Lincoln (CVN 72) Carrier Strike Group and the USS Bonhomme Richard (LHD 6) Expeditionary Strike Group, and included Marines from the 15th Marine Expeditionary Unit.

In addition to humanitarian operations in Southeast Asia, the Navy performed a major role in providing assistance and relief to the people of Mississippi and Louisiana after Hurricane Katrina ravaged the gulf coast on August 29, 2005. For example, twenty-four hours after Hurricane Katrina came ashore in New Orleans, Naval Facilities Engineering Command (NAVFAC) Damage Assessment Teams were en route to the gulf coast naval installations with structural and mechanical engineers, architects, roofing specialists and construction contract specialists. Fleet and Family Support Center staff in Mississippi and Florida assisted displaced military, civilian employees, family members, and civilian evacuees. Also, the USNS Comfort (T-AH 20), one of the largest trauma facilities in the United States, sailed from its home port in Baltimore, Maryland to assist in the relief effort.

The Navy–Marine Corps team continues to pursue readiness transformation under the Fleet Response Plan. This plan requires that the Navy become capable at all times of the immediate deployment of six forward-deployed or ready-to-surge Carrier Strike Groups, and that it be able to deploy within 90 days two additional Carrier Strike Groups from the basic training phase. In April 2005 the USS Boxer (LHD-4) amphibious assault ship demonstrated our ability to meet the requirements of the Fleet Response Plan, deploying for the third time in three years. The Boxer had previously deployed in January 2003 in support of Operation Iraqi Freedom, returning in July 2003; and again in January 2004, in support of the Operation Iraqi Freedom force rotation, returning in late April that year.

The Navy–Marine Corps team must continue to innovate and adapt to new ways of fighting. The framework within which the team will transform its core capabilities is that of sea basing. Sea basing capabilities will provide joint force commanders with global command and control capability, and will extend integrated logistical support to the Army and Air Force. In FY2005 we took a significant step closer to full sea basing capability with the construction of the first Littoral Combat Ship and the commissioning of the first nuclear-powered Virginia-class fast attack submarine, the USS Virginia (SSN 774).



*The amphibious assault ship USS Boxer (LHD 4) leaves her homeport of San Diego, California for her third deployment in three years.*



*Sailors board the newly commissioned USS Virginia (SSN 774), the first nuclear-powered fast attack Virginia-class submarine.*

### TECHNOLOGY INSERTION

*“Continued technology improvements will ensure Naval forces’ ability to project offensive power, defend the homeland, and sustain operational independence around the world.”*

The Honorable Gordon R. England, Secretary of the Navy, February 2005

The DON continues to develop and deploy new technology in support of the National Military Strategy. One outstanding recent innovation is the FSF-1 Sea Fighter, or X-Craft. Launched in February 2005, the Sea Fighter is a high-speed aluminum catamaran that will allow the Navy and Marines to conduct a variety of missions in near-shore waters, such as battle force protection, anti-submarine warfare, and amphibious assault support. The Marine Corps Warfighting Laboratory also continues to investigate new and potentially valuable technologies, evaluating their potential impact on the ways in which the Marine Corps organizes, equips, and trains to fight. The laboratory is studying, for example, command and control shared data environments, landing force technologies, and assault vehicles.



*The Littoral Surface Craft-Experimental (X-Craft), christened Sea Fighter (FSF 1), at Whidbey Island, Washington.*



## IMPROVED BUSINESS PRACTICES

*“...we have been faced with the challenge of making the Naval Team more efficient in order to develop a more effective fighting force....Our recent performance indicates the business initiatives we are pursuing are on the right track....”*

The Honorable Gordon R. England, Secretary of the Navy, February 2005

## DON BUSINESS TRANSFORMATION

Since the inception of the Chief Financial Officers Act of 1990, the DON has undertaken numerous initiatives to improve its financial management. Building on the lessons learned from this work, the Department, in conjunction with the Office of the Under Secretary of Defense (Comptroller), has developed a Financial Improvement Program with the goal of improving the quality, timeliness, and accuracy of its financial information. The program is a departure from the previous initiative, the Mid-Range Financial Improvement Plan, in that it does not take as its primary objective the achievement by FY2007 of an unqualified audit opinion. Progress toward a clean audit nonetheless will remain the outcome measure used by the DON to evaluate the efforts taken to improve its financial management.

The framework for the DON business transformation comprises four key components:

- **Blueprint.** *Department of Defense Business Enterprise Architecture.* A primary product of the Department of Defense Business Management Modernization Program, the Business Enterprise Architecture is a set of rules, standards, and principles that will guide selection of future business systems in support of internal control and interoperable business processes.
- **Cornerstone.** *Navy Enterprise Resource Planning Program.* The Navy Enterprise Resource Planning Program is a key enabler for Sea Enterprise, which aims to transform business processes and to generate enterprise-wide efficiency savings in support of the recapitalization of naval forces. At the center of this program is the Navy Enterprise Resource Planning System. This system will integrate Navy business processes, such as procurement, supply chain, and finance, to improve accessibility across the Department to real-time data and information. The system is scheduled to become operational in FY2006.
- **Transition Tool.** *Functional Area Management.* Use of the Functional Area Management construct, in conjunction with information technology portfolio management, will help the DON to select the optimal mix of information technology investments.



- **Integrating Plan.** *Department of the Navy Financial Improvement Program.* The DON Financial Improvement Program is a business transformation initiative to integrate business processes and related process enhancements, systems initiatives, and internal controls. At the core of the program is the DON Financial Improvement Plan, which is organized into sets of projects that are primarily linked to financial statement line items.

### MARINE CORPS BUSINESS ENTERPRISE INITIATIVES

The Marine Corps is focused on optimizing its resources at every level to enable greater investment in core combat capabilities. To this end, the Corps has established a Business Enterprise Office to improve its business practices. A recently approved product of this office is the Marine Corps Business Enterprise Strategic Plan, to map the end-to-end assessment and improvement of Marine Corps business processes through FY2012. The objectives of the plan include the regionalization, competitive sourcing, process reengineering, divestiture, or elimination of non-core functions.



*U.S. Navy and U.S. Marine Corps personnel load food into a CH-46 Sea Knight helicopter in support of Operation Unified Assistance – the humanitarian effort in the wake of the tsunami that struck Southeast Asia on December 26, 2004*

## MANAGING RISK – PERFORMANCE RESULTS

The DON is committed to accomplishing its mission in a way that delivers the best value to the nation. It expects also to be fully accountable for its results. To this end, the Department has brought together the objectives and performance management goals of the President's Management Agenda with the four tenets of Department of Defense risk management—Force Management Risk, Operational Risk, Future Challenges Risk, and Institutional Risk—to form a balanced scorecard for risk management (<http://navweb.secnav.navy.mil>). These four tenets of risk management align with the four focus areas of the DON Balanced Scorecard: People, Combat Capability, Technology Insertion, and Improved Business Practices. This alignment provides the Department with a means of measuring, evaluating, and improving its strategic performance consistent with the goals of defense policy (<http://www.defenselink.mil>) and the President's Management Agenda (<http://www.whitehouse.gov/omb>).

Following are representative examples of cascading performance metrics/outcomes for each Department of Defense risk tenet for FY2004 and FY2005.

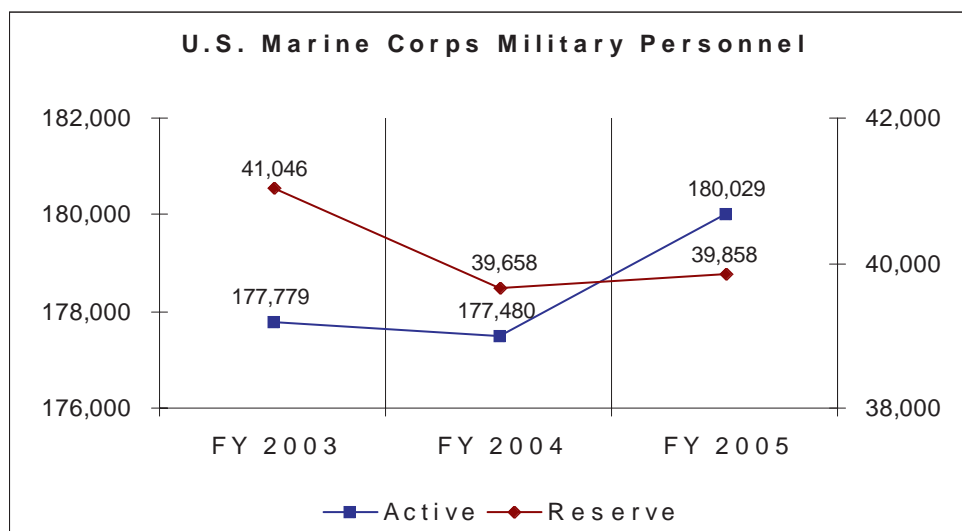
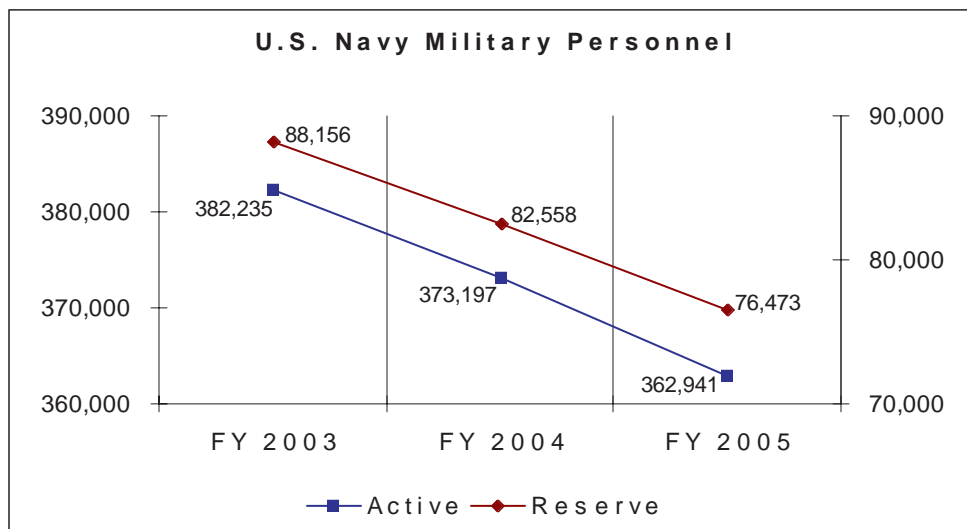


*Sailors assigned to USS Ashland (LSD 48) inspect the sprinklers and valves of the chemical, biological, and radiological wash down system on the ship's flight deck.*

## PEOPLE (FORCE MANAGEMENT RISK)

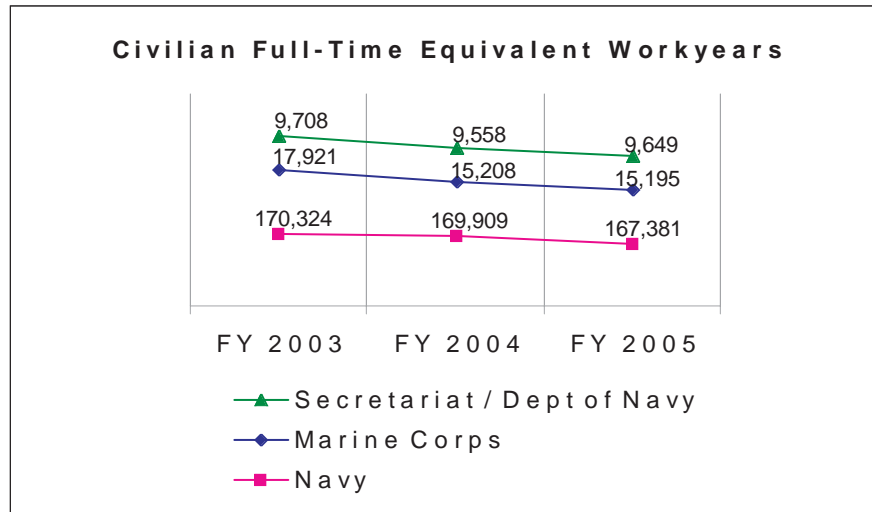
### Ensure Sustainable Military Tempo

The DON sustains a force structure capable of meeting the deployment requirements of the Global War on Terror and other military operations. Its active duty and reserve personnel levels have been steadily declining over the past three fiscal years, but the Navy has been able to accomplish its assigned missions by changing its force structure, utilizing technology to become more efficient, altering the workforce mix, and adopting new manning practices. The active duty and reserve personnel levels of the Marine Corps have remained steady since FY2004. By realigning its force structure through military-to-civilian conversions, the Corps nonetheless has been able to improve the scalability and interoperability of its forces.



## Maintain Reasonable Force Costs

The DON is committed to becoming a leaner, more efficient organization. Over the past three fiscal years, DON has reduced civilian personnel levels and increased military-to-civilian conversions to improve operational efficiency.

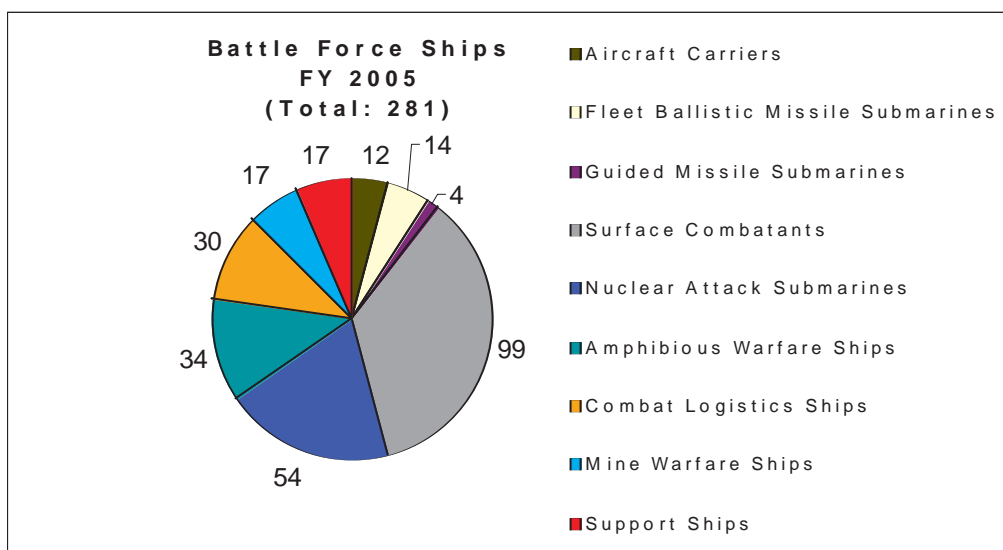


## COMBAT CAPABILITY (OPERATIONAL RISK)

### Ensure Force Levels

The DON is committed to maintaining the operational levels necessary to ensure that it can conduct the full spectrum of joint military activities. In FY2005, battle force ships and Marine Corps land forces continued to provide the combat capabilities required to shape the international environment and to respond to the full spectrum of crises.

For a complete description of the roles and characteristics of U.S. Navy ships, see “Fact File” at <http://www.navy.mil>.



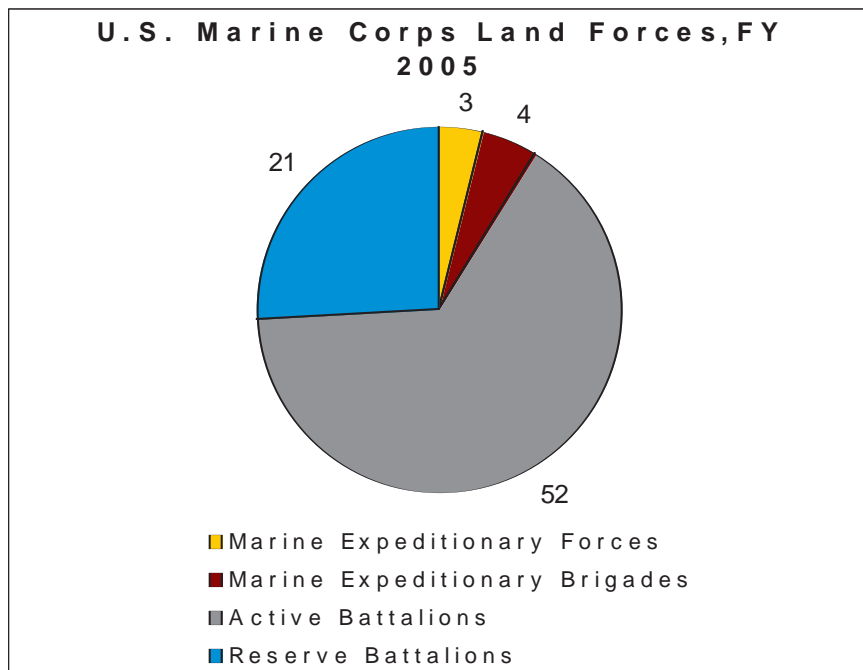


*Sailors man the rails and render honors to the USS Arizona Memorial as the Nimitz-class aircraft carrier USS Ronald Reagan (CVN 76) pulls into Naval Station Pearl Harbor, Hawaii.*



*The Los Angeles-class nuclear-powered fast attack submarine USS Salt Lake City (SSN 716) is underway after departing Naval Submarine Base Point Loma, California to conduct routine exercises in the Pacific Ocean.*





**Marine Expeditionary Force:** the largest Marine air-ground task force, with as many as 90,000 personnel.

**Marine Expeditionary Brigade:** a Marine air-ground task force that is larger than a Marine Expeditionary Unit (comprises approximately 2,000 personnel), but smaller than a Marine Expeditionary Force.

**Battalion:** a tactical unit of a Marine Expeditionary Force, Marine Expeditionary Brigade, or a Marine Expeditionary Unit, with as many as 1,200 personnel.

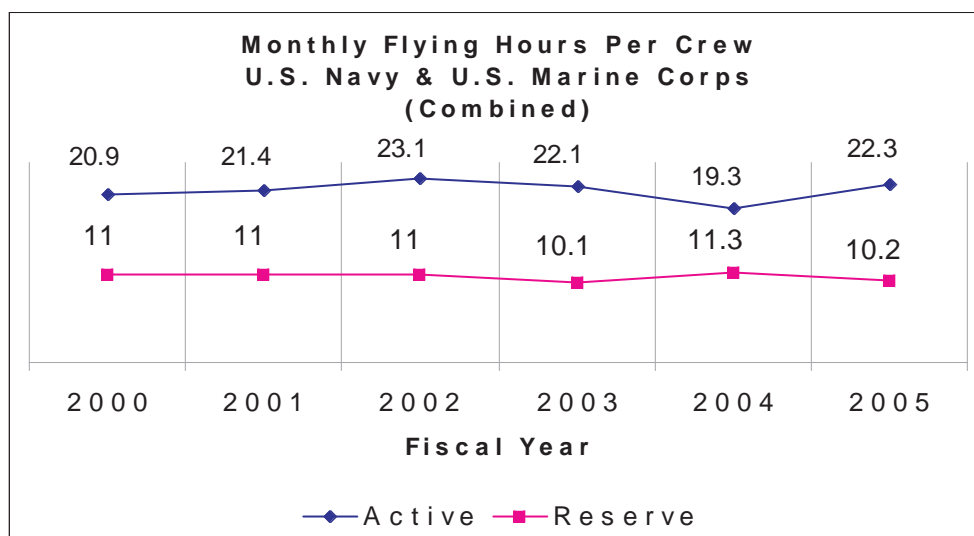
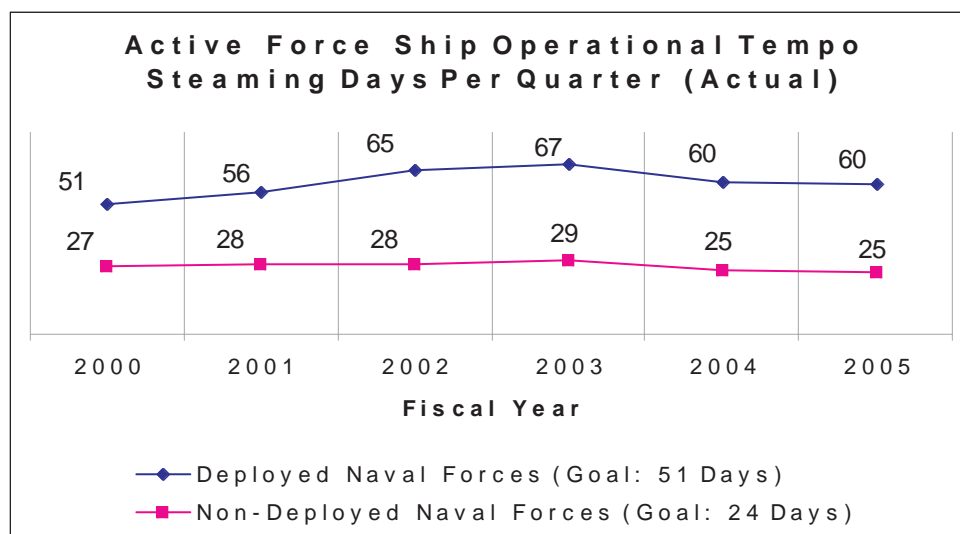
For more information on U.S. Marine Corps forces, see "Units" at <http://www.usmc.mil>.



*A U.S. Marine, assigned to 3rd Battalion, 2nd Marine Regiment, radios in to confirm the destruction of a hostile vehicle during Operation Spear in the city of Karabilah, Iraq.*

### Ensure Force Readiness

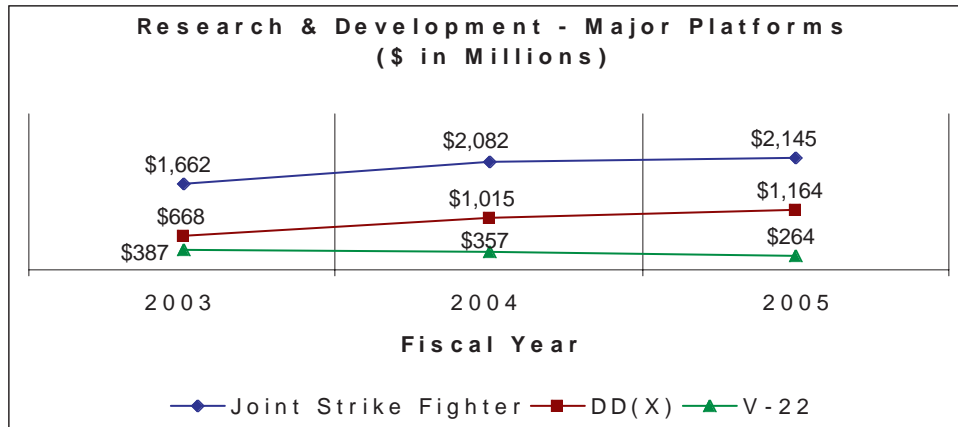
The increasingly diverse threats of the 21st century mean that the Navy–Marine Corps team must be able simultaneously to provide homeland defense, to deploy a force forward, and to surge with overwhelming and decisive combat power. In FY2005 the Navy–Marine Corps team continued to demonstrate its readiness. Measures of force readiness include steaming days per quarter (the number of days that ships are away from their home port) and monthly flying hours per crew.



## TECHNOLOGY INSERTION (FUTURE CHALLENGES RISK)

### Define and Develop Transformational Capabilities

The DON continues to invest in transformational capabilities that will define and develop the Navy–Marine Corps team of the future. Representative examples of major platforms funded by the DON Research, Development, Test, and Evaluation appropriation include the Joint Strike Fighter, DD(X), and V-22.



- Joint Strike Fighter. An aircraft that in its different configurations meets the needs of the Navy, Marine Corps, Air Force, and allied forces. The timetable for delivery of the Joint Strike Fighter Program has been set back to ensure that there is sufficient time available for key technology challenges to be properly addressed.
- DD(X). A family of advanced multi-mission warships capable of long-range firepower in support of forces ashore. Advance procurement funding has been budgeted for FY2006 to support a lead ship detail design and construction contract award in FY2007.
- V-22. A joint aircraft program designed to meet the amphibious/vertical assault needs of the Marine Corps and the strike rescue needs of the Navy, and to supplement the special mission aircraft. The Department will maintain production at a minimum rate of 12 aircraft in FY2006, pending completion of operational testing.

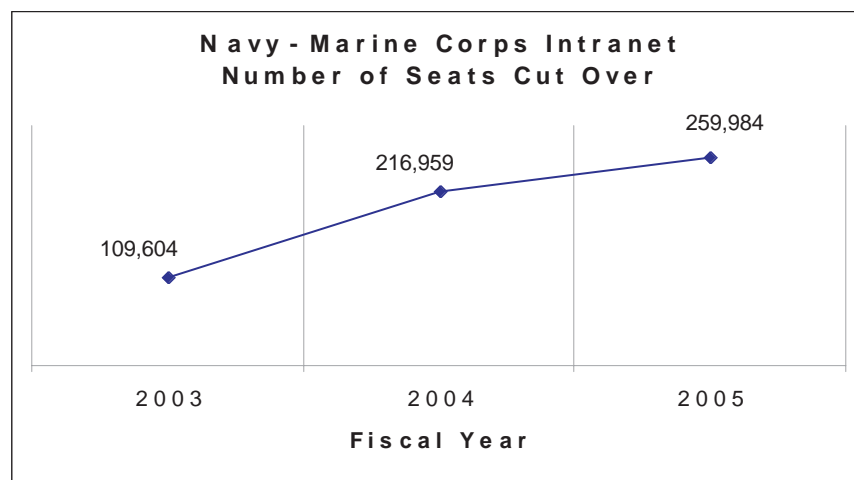


An F/A-18C Hornet prepares to make an arrested landing aboard the Nimitz-class aircraft carrier USS Harry S. Truman (CVN 75).

### IMPROVED BUSINESS PRACTICES (INSTITUTIONAL RISK)

#### Streamline Decision Processes; Drive Financial Management; Acquisition Excellence

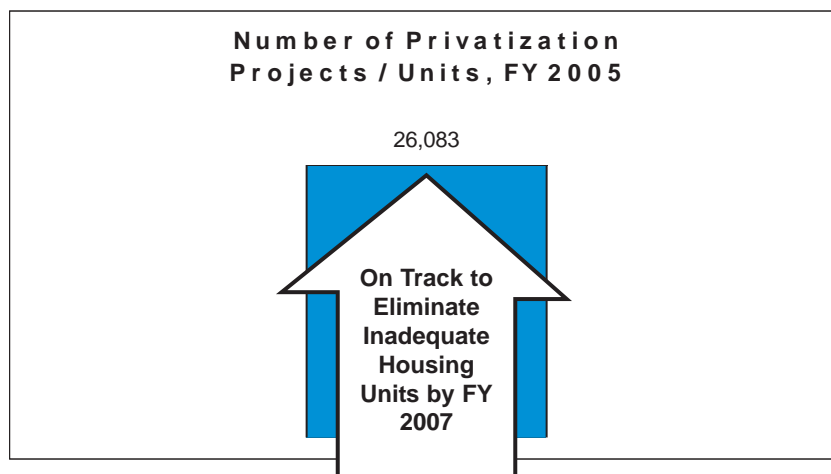
The DON is transforming its business processes, as exemplified by the Navy-Marine Corps Intranet (NMCI). NMCI is a comprehensive, enterprise-wide initiative that will make the full range of network-based information services available to Sailors and Marines on a daily basis and in times of war. In FY2005 the Department increased connectivity to NMCI, as demonstrated by the rise in seats cut over (that is, the number of desk tops on which NMCI is installed); enhancements in network security; the expansion of knowledge sharing across the globe; and an improvement in systems reliability.



*An E-2C+ Hawkeye increases performance and safety along with better maintenance techniques. Other improvements to the airframe include the Group II Mission Computer Replacement Program, which speeds up the Hawkeye's computers eight times faster than the older models.*

## Readiness and Quality of Key Facilities

DON facilities slated for improvement notably include the housing units it provides for Sailors and Marines and their families. The Department has accelerated improvement of its family housing stock by engaging in public-private ventures that leverage private-sector capital and expertise to build and manage family housing units.



## MANAGEMENT INTEGRITY

Commanders and managers throughout the DON must ensure the integrity of their programs and operations. Part of this responsibility entails compliance with laws and regulations, including in particular the 1982 Federal Managers Financial Integrity Act and the 2002 Improper Payments Information Act. A discussion of these two statutes and the Department's compliance with them appears below.

### FEDERAL MANAGERS FINANCIAL INTEGRITY ACT

The 2002 passage of the Sarbanes-Oxley Act, which applies to publicly traded companies, provided the impetus for the federal government to reevaluate its internal control policies under the 1982 Federal Managers Financial Integrity Act. Consequently, in December 2004 the Office of Management and Budget (OMB) issued a revised version of Circular A-123, entitled *Management's Responsibility for Internal Control*. Effective in FY2006, the revised circular includes updated internal control standards and new requirements for assessing the effectiveness of internal control over financial reporting. In the interim, federal agencies, including the DON, must continue to follow Circular A-123 of June 1995, *Management Accountability and Control*.



## 2005 Annual Financial Report

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As required by Circular A-123 and related implementing guidance from the Department of Defense, the DON annually must evaluate its system of internal accounting and administrative controls (that is, its management controls). The objective of this evaluation is to determine whether reasonable assurance exists that:

- obligations and costs are in compliance with applicable laws;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of reliable accounting, financial, and statistical reports and to maintain accountability over assets.

In FY2005, DON issued a qualified statement of assurance, citing material weaknesses in management controls that preclude an unqualified statement. Specifically, DON's system of internal accounting and administrative controls in effect during the 12-month period ending June 30, 2005, taken as a whole, provides reasonable assurance that DON can execute its mission effectively and protect its critical assets, with the exception of material weaknesses reported. The basis for reasonable assurance includes an established control environment, continued emphasis on risk assessment, specific control activities, continuous communication and flow of information, and monitoring performed by both command management and the audit/inspection community. Additionally, the effective execution of missions during recent military actions confirms the strength of DON's management controls.



*Three Catapult Officers simultaneously launch an F/A-18F Super Hornet, assigned to the "Bounty Hunters" of Strike Fighter Squadron VFA-2, aboard the Nimitz-class aircraft carrier USS Abraham Lincoln (CVN 72).*

DON reported seven uncorrected material weaknesses in FY2005. The first six weaknesses are new for FY2005. A description of the weaknesses can be found in the FY2005 statement of assurance, which is available at the Assistant Secretary of the Navy (Financial Management and Comptroller) website, <http://www.finance.hq.navy.mil/fmc>.

1. Top Secret / Sensitive Compartmented Information Requirements Process
2. Certification and Accreditation of DON Information Technology Systems
3. Accurate and Complete Reporting of Accounts Payable, DON General Fund
4. Identification and Reporting of Environmental Disposal Liabilities
5. Reporting of Military Equipment
6. Valuation of Inventory and Operating Materials and Supplies
7. Navy and Marine Corps Intranet (NMCI) Continuity of Operations Plan

## **IMPROPER PAYMENTS INFORMATION ACT**

One component of the President's Management Agenda is an initiative to reduce improper payments. Improper payments are those which should not have been made or that were made in incorrect amounts under statutory, contractual, administrative, or other legally applicable requirements. Examples of improper payments include overpayments, underpayments, duplicate payments, and payments for services not received.

DON programs and activities that are susceptible to erroneous payments include primarily those for which the Department has the responsibility for calculating entitlements or the responsibility for disbursing government funds. Examples of two such activities include Personnel Support Activities and Detachments, which are responsible for calculating travel payments, and Disbursing Officers, aboard ships and at other isolated locations, that are responsible for the disbursement of government funds. (Note that the Defense Finance and Accounting Service performs the vast majority of the Department's entitlement computation and disbursement functions.)

As required by implementing guidance from the OMB under the 2002 Improper Payments Information Act, the DON identified \$3.6 million of improper payments in FY2005. This amount is significantly less than the OMB threshold of \$10 million. The Department has instituted internal controls to reduce the occurrence of improper payments in the future.



*Assistant Secretary of the Navy (Financial Management and Comptroller), Richard Greco, Jr. speaks to Marines of the 1st Reconnaissance Battalion at Camp Pendleton, California.*

## FINANCIAL REPORTING RESULTS

*“We must accurately account for the taxpayers’ money and give our managers timely and accurate program cost information to inform management decisions and control costs.”*

**The Honorable Richard Greco, Jr., Assistant Secretary of the Navy (Financial Management and Comptroller), July 2005**

In support of the DON Financial Improvement Program, the DON General Fund and Navy Working Capital Fund financial statements provide the scorecard mechanisms by which the Department evaluates progress toward improving the quality, timeliness, and accuracy of financial information. Examples of progress made in FY2004 and FY2005 include:

- Validation of balance sheet line items for audit readiness
  - Investments (DON General Fund)
  - Debt (Navy Working Capital Fund)
- Identification and evaluation of deficiencies in the DON General Fund balance sheet line items
  - Other assets
  - Environmental liabilities (Defense Environmental Restoration Program (DERP) and Base Realignment and Closure (BRAC))
  - Other liabilities

The Navy and the Marine Corps Financial Improvement Plans provide other examples of progress made. Specifically, on June 30, 2005 the Navy and Marine Corps issued new Financial Improvement Plans to the Office of the Under Secretary of Defense (Comptroller) for review. The Marine Corps will execute its plan as a pilot for the implementation of the overall DON Financial Improvement Program.

A discussion follows of financial performance relative to the DON General Fund and Navy Working Capital Fund financial statements for FY2004 and FY2005.

## DON GENERAL FUND

Discussion of the financial performance of the DON General Fund focuses on two principal statements: the Consolidated Balance Sheet and the Combined Statement of Budgetary Resources. The balance sheet is similar to that used within the private sector, presenting assets, liabilities, and net position (stockholder's equity in the private sector). The private sector does not use a statement of budgetary resources.

## ASSET COMPOSITION

The Consolidated Balance Sheet as of September 30, 2005 presents total assets of \$312 billion, which represents an increase of \$16 billion (or five percent) from FY2004. The increase in total assets is primarily attributed to changes in significant line items described below.

Fund Balance with Treasury. Fund Balance with Treasury (FBWT) is an account that reflects available spending authority for the DON. In FY2005, FBWT increased by \$3.9 billion (or five percent). This increase is the result of a \$7 billion increase in appropriations received for FY2005. See Note 3, DON General Fund Notes to the Principal Statements, for more information on FBWT.

Accounts Receivable. Accounts Receivable represents amounts owed to the DON for goods and services ordered by other federal government entities (intragovernmental) and by the public (nonfederal). In FY2005, Intragovernmental Accounts Receivable increased by \$30 million (or 12 percent). This increase is primarily attributed to a \$54 million increase with the Department of Homeland Security (specifically, the Federal Emergency Management Agency) for customer orders related to Hurricane Katrina relief efforts.

Additionally, Nonfederal Accounts Receivable increased by \$372 million (or 13 percent) in FY2005. This increase is primarily attributed to a change in the DON's methodology for determining the estimated amount of uncollectible accounts receivable. See Note 5, DON General Fund Notes to the Principal Statements, for more information on Intragovernmental and Nonfederal Accounts Receivable.

General Property, Plant and Equipment (PP&E). General PP&E consists of real property, military and general equipment, internal use software, and construction-in-progress. In FY2005, General PP&E increased by \$6.6 billion (or four percent). The majority of this increase is the result of:

- \$6 billion in additional military equipment,
- \$1 billion in new buildings and structures due to the completion of several large military construction projects, and
- \$781 million decrease in construction-in-progress due to the completion of several military construction projects.

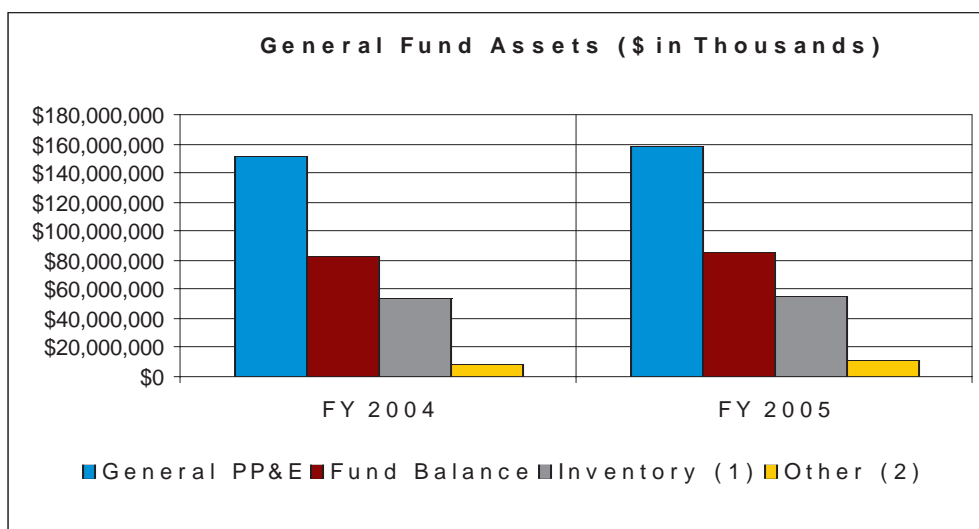
See Note 10, DON General Fund Notes to the Principal Statements, for more information on General PP&E.

Other Assets. Other Assets consists of advances, prepayments, and outstanding contract financing payments. In FY2005, Other Assets increased by \$2 billion (or 45 percent). The majority of this increase is due to:

## 2005 Annual Financial Report

- \$4 million increase in advances and prepayments from other federal government entities (Intragovernmental Other Assets), and
- \$2 billion increase in outstanding contract financing payments (Nonfederal), primarily related to the Aircraft and Weapons Procurement programs.

See Note 6, DON General Fund Notes to the Principal Statements, for more information on Other Assets.



**NOTE:**

(1) "Inventory" includes operating materials and supplies, held for use.

(2) "Other" includes investments, accounts receivable, other assets, and cash and other monetary assets.

## ACCOUNTS RECEIVABLE METRIC

As part of the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Financial Indicators Program, the DON must track delinquent intragovernmental and public (nonfederal) accounts receivable. Accounts receivable are deemed "delinquent" when payment has not been received within 30 days of the date specified in the initial demand letter (<http://www.dod.mil/comptroller/fmr/>). The purpose of this metric is to ensure proper stewardship of public funds and cash management.

OUSD(C) has established a Department of Defense-wide goal of a 25 percent reduction in the total amount of delinquent intragovernmental and public accounts receivable. In FY2005, the DON missed this goal by \$1 million primarily due to new reporting of delinquent accounts receivable from the Enterprise Resource Planning (ERP) program. DON began tracking delinquent ERP accounts receivable in June 2005, and therefore had not included delinquent ERP accounts receivable in the original baseline.



## LIABILITY COMPOSITION

The Consolidated Balance Sheet as of September 30, 2005 presents total liabilities of \$29 billion, which represents an increase of \$812 million (or three percent) from FY2004. The increase in total liabilities is primarily attributed to changes in significant line items described below.

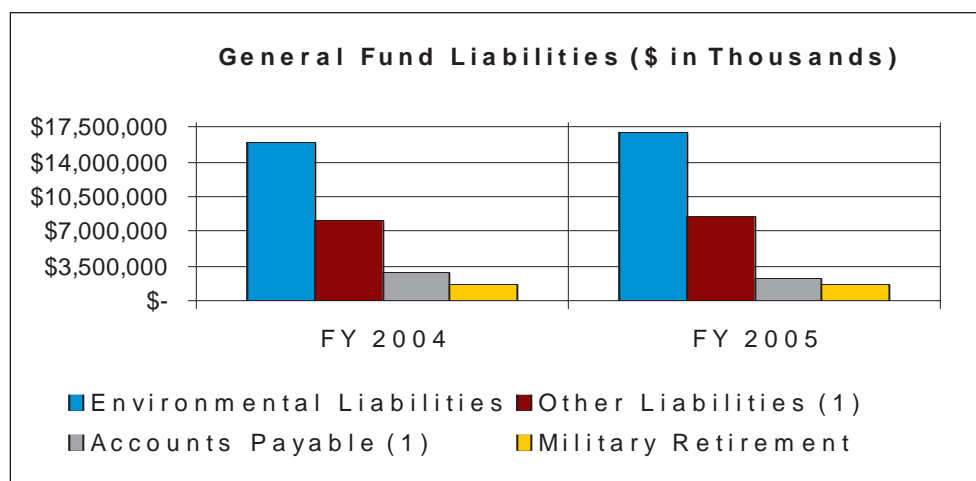
**Environmental Liabilities.** Environmental Liabilities includes Defense Environmental Restoration Program (DERP), Base Realignment and Closure, and environmental disposal of weapons systems. In FY2005, Environmental Liabilities increased by \$1 billion (or six percent). The majority of this increase is the result of:

- \$1.3 billion increase in the environmental disposal of nuclear-powered aircraft carriers and submarines due to labor rate increases and program growth, and
- \$203 million decrease in DERP liabilities due to completion of cleanup projects.

See Note 14, DON General Fund Notes to the Principal Statements, for more information on Environmental Liabilities.

**Accounts Payable.** Accounts Payable represents amounts owed by the DON to other federal government entities (intragovernmental) and to the public (nonfederal) for goods and services ordered and received but not yet paid. In FY2005, Intragovernmental Accounts Payable decreased by \$227 million (or 16 percent). This decrease is based upon intragovernmental elimination adjustments recorded at the Department of Defense component level.

Additionally, Nonfederal Accounts Payable decreased by \$480 million (or 34 percent) in FY2005. This decrease is primarily attributed to a decrease in the Military Personnel, Marine Corps account. See Note 12, DON General Fund Notes to the Principal Statements, for more information on Intragovernmental and Nonfederal Accounts Payable.



NOTE:

(1) "Other Liabilities" and "Accounts Payable" include intragovernmental debt.

### BUDGETARY RESOURCES, OBLIGATIONS, AND OUTLAYS

The statement of budgetary resources has three primary components: budgetary resources, obligations, and outlays, as follows:

- **Budgetary resources.** Budgetary resources include budget authority, such as appropriations received. Budget authority is the authority provided by law to enter into financial obligations that will result in immediate or future outlays involving federal government funds.
- **Status of budgetary resources.** Obligations incurred for the reporting period are included in the status of budgetary resources. Obligations incurred represent amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that require payments during the same or future period.
- **Relationship of obligations to outlays.** The relationship of obligations to outlays is essentially a reconciliation of the obligated balance at the beginning and end of the reporting period. Included in the reconciliation are outlays. Outlays occur when a federal agency issues checks, disburses cash, or electronically transfers funds to liquidate an obligation. Outlays also occur when interest on the Treasury debt held by the public accrues; the federal government issues bonds, notes, or other cash-equivalent instruments; or a direct or guaranteed loan is disbursed.

Below is a discussion of budgetary resources, obligations incurred, and outlays reported by the DON in FYs 2004 and 2005.

Total budgetary resources. In FY2005, the DON reported \$131 billion in budget authority, which represents 78 percent of total budgetary resources. FY2005 budget authority represents an increase of \$7 billion (or six percent) from FY2004. This increase is the result of continuing efforts to accomplish the overall DON mission.

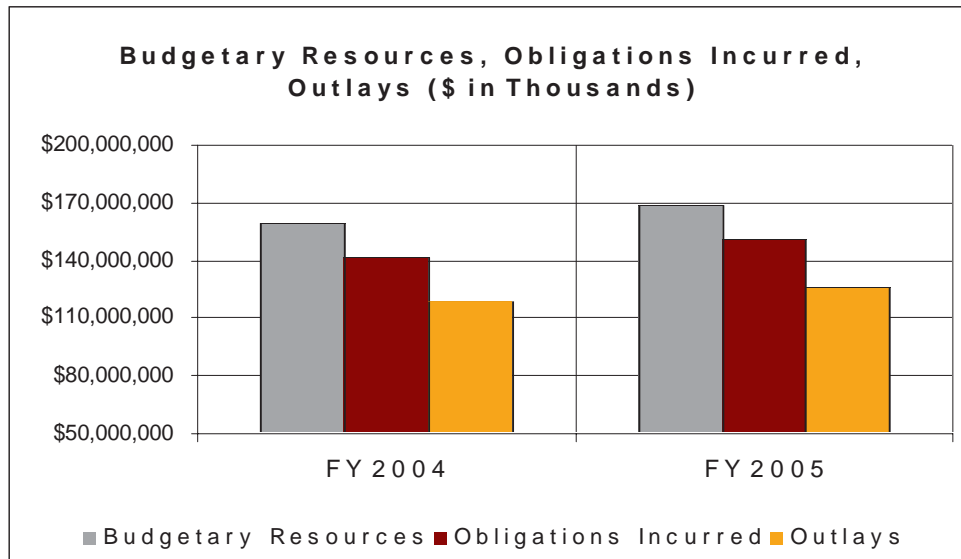
Total obligations incurred. In FY2005, the DON incurred obligations of \$151 billion, representing an increase of seven percent from FY2004. This increase is the result of increased funding for procurement accounts.

Total outlays. In FY2005, the DON reported outlays of \$126 billion, representing an increase of six percent from FY2004. This increase is the result of increased funding for procurement and research and development accounts.

See Note 21, DON General Fund Notes to the Principal Statements, for more information on the FY2005 statement of budgetary resources.



*Secretary of the Navy, Gordon R. England answers questions from a live audience, as he outlines the processes the Department of Defense team is using to develop the National Security Personnel System.*



*A Navy Band member performs during a change of command ceremony aboard the aircraft carrier USS Nimitz (CVN 68) in San Diego, California.*

### NAVY WORKING CAPITAL FUND

Discussion of financial performance for the NWCF focuses on cash management at the Department level and on the net cost of operations for the NWCF as a whole and by NWCF business area. (Note that the net cost of operations for NWCF as a whole includes the five NWCF business areas, ordnance, and the NWCF component level.)

### CASH MANAGEMENT

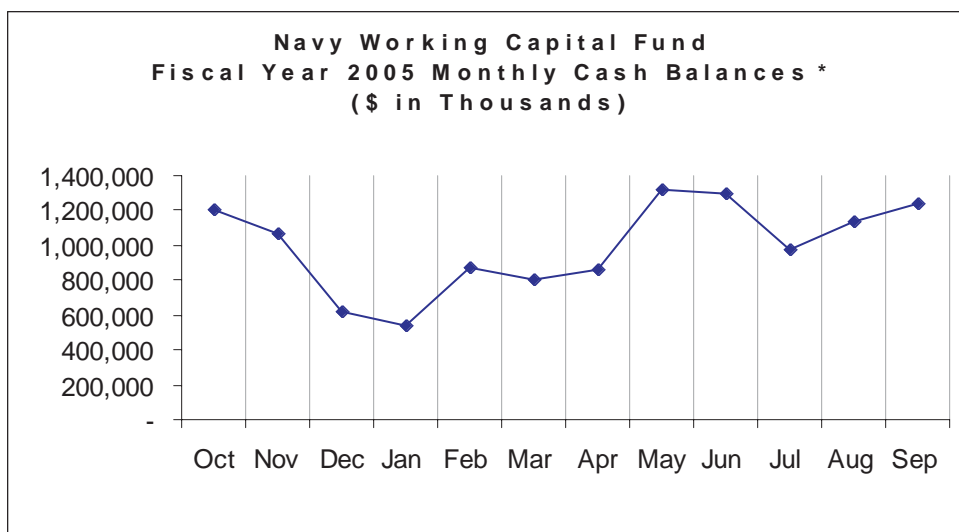
The DON manages working capital fund cash at the Departmental level. It must maintain cash levels at seven to ten days of operational costs, and be sufficient to meet six months of capital outlays, as required by the Department of Defense Financial Management Regulation (<http://www.dod.mil/comptroller/fmr/>). For FY2005, the seven-day cash requirement was \$762 million and the ten-day requirement was \$1,036 million.

For the second quarter of FY2005, the DON had projected NWCF cash balances to fall below \$200 million. When weekly cash balances during February 2005 dipped to \$97 million, the DON initiated advance billing of \$279 million. Advance billing enabled the DON to sustain an NWCF cash balance sufficient to meet monthly obligations. Supplemental appropriations received during FY2005 also bolstered NWCF cash. Appropriations received were as follows:

- \$200 million to finance the increased cost of Depot Maintenance, Aviation for the Global War on Terror;
- \$67 million for increased Defense Logistics Agency fuel rates for Military Sealift Command ships;
- \$20.1 million for 2004 hurricane damages; and
- \$7.2 million for 2005 hurricane damages.

Given the fluctuations in FY2005 cash flow (see chart), the NWCF ended the fiscal year with a three percent increase of \$34,087 million in cash. This increase is primarily attributed to the following:

- \$79 million in advance billing;
- \$200 million from the sale of Supply Management consumables; and
- \$271 million for payroll accrued during the last 13 days of September.



\*NOTE:

Cash balances above represent the combined total of monthly cash balances for the five NWCF business areas, ordnance, and the NWCF component level.

The FY2005 NWCF ending cash balance also reflects the Congressionally directed transfer of \$150 million from NWCF to the Operation and Maintenance, Navy appropriation, which was completed in September 2005.

As part of the DON Financial Management Strategic Plan business transformation effort, a team is reviewing NWCF cash "as is" forecasting and execution practices in an effort to standardize business processes and tailor cash balances for each NWCF business area.

## NET COST OF OPERATIONS

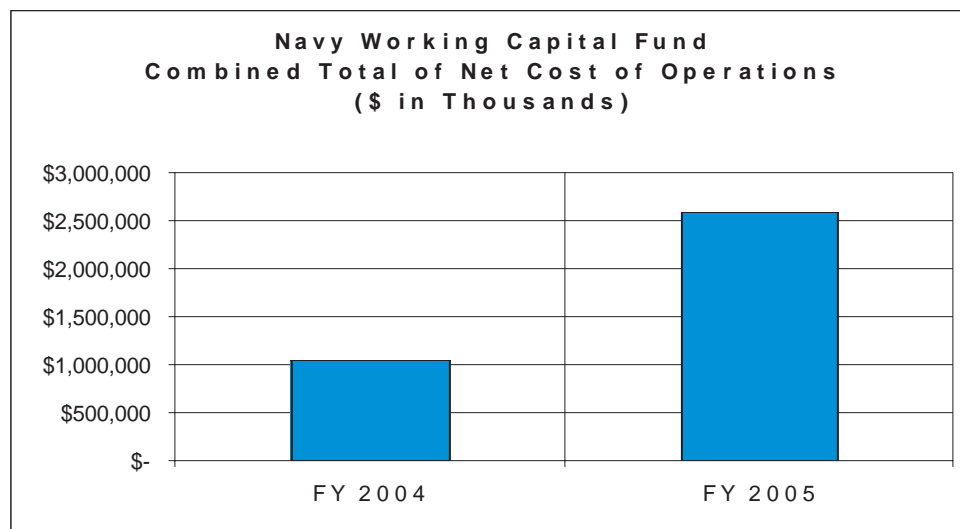
Net cost of operations is the "bottom line" on the federal sector's statement of net cost. It is similar to the private sector's net income (or net loss) on the income statement (also known as "the profit and loss statement"). Both the statement of net cost and the income statement present revenues earned and costs (or expenses) incurred for the reporting period. However, to arrive at the bottom line the federal sector calculates costs incurred less revenues earned, whereas the private sector calculates revenues earned less expenses incurred.

In FY2005, net cost of operations for the five NWCF business areas, ordnance, and NWCF component level increased by \$1.5 billion (or 149 percent). This increase is primarily attributed to:

- Supply Management, Navy, which reported an increase in cost of goods sold as a result of the Depot Level Repairable carcass reconciliation, and
- Transportation (Military Sealift Command), which incurred an increase in fuel consumption costs.

To view the combined total of program costs and earned revenue for the five NWCF business areas, ordnance, and the NWCF component level, see the NWCF Consolidated Statement of Net Cost. Supporting details for this statement are in the NWCF Consolidating Statement of Net Cost.

See Note 18, NWCF Notes to the Principal Statements, for more information on the FY2005 statement of net cost.



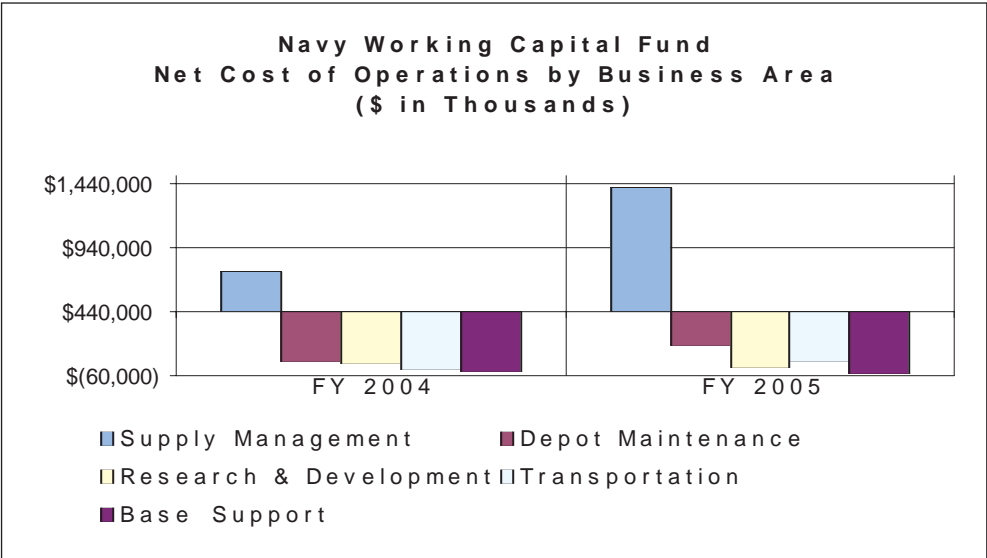
NOTE:

Totals above represent the combined total of net cost of operations for the five NWCF business areas, ordnance, and the NWCF component level.



NET COST OF OPERATIONS BY BUSINESS AREA

In FY2005, the total net cost of operations for the five NWCF business areas was \$1.6 billion. This represents 62 percent of the combined total of net cost of operations for the five NWCF business areas, ordnance, and the NWCF component level. In contrast, the total net cost of operations for the five NWCF business areas in FY2004 was \$815 billion. This represented 79 percent of the combined total of net cost of operations for the five NWCF business areas, ordnance, and the NWCF component level.



The T-6 Texan training aircraft takes off from the flight line at Naval Air Station (NAS) Pensacola. Only one model of aircraft will be used for training Air Force and Navy pilots, as part of the Department of Defense’s effort to streamline military training operations, reduce costs, while increasing efficiency.



*The T-34B Mentor trainer aircraft hangs in the North Atrium of the newly renovated Chevalier Hall building at the Naval Air Technical Training Center (NATTC) on board Naval Air Station Pensacola, Fla. Chevalier Hall was rebuilt after being devastated with heavy damage from Hurricane Ivan in September 2004. Chevalier Hall is the home of aviation technical schools where new Sailors receive their initial training before being assigned to the Fleet.*